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UNIVERSITY OF MONTANA

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 1973

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UNIVERSITY OF MONTANA

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 1973

58

MONTANA LEGISLATIVE COUNCIL
STATE CAPITOL
HELENA, MONTANA 59601

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

Thomas L. Judge, Governor*

Dolores Colburg, Superintendent of Public Instruction*

Lawrence K. Pettit, Ph.D., Commissioner of Higher Education, Secretary

Sid Thomas, Student Representative	Bozeman	1976
Lewy Evans, Jr.	Billings	1976
T. T. Heberly	Havre	1977
Mary Pace, Vice Chairman	Bozeman	1978
Ted James, Chairman	Great Falls	1979
Jeffrey Morrison	Helena	1980
John Peterson	Butte	1982

*ex officio members

UNIVERSITY OF MONTANA

LOCAL EXECUTIVE BOARD

Olive M. Haugen	April, 1975
Alex M. Stepanzoff	April, 1976
Arthur Deschamps, Jr.	April, 1977

ADMINISTRATION

Richard Bowers, Ph.D.	President
Calvin L. Murphy	Business Manager

SUMMARY OF RECOMMENDATIONS

	Page
Representatives of the university system work with the Department of Administration to develop an accounting system to satisfy legislative and university requirements.	12
Deposit all moneys in the state treasury and utilize the investment services of the Board of Investments.	14
Revise the present bank card arrangements to comply with state law and acceptable business practice.	15
Promptly bill the AFIT program for costs incurred.	20
Recognize unbilled accounts receivable and ensure that unbilled reimbursable costs are reported as revenue in the university financial statements.	20
Determine the proper use of administrative charges for deferred fees and record those fees as revenue.	21
Record library service charges and lost book collections as revenue and discontinue transferring these funds to the foundation.	22
Record the receipt of all grants and the subsequent disbursement and expenditures on the university's records.	29
Administratively control all grant moneys and all grant projects which are performed on university facilities.	29
Establish written contracts for all work to be done by the foundation on behalf of the university, or to be done by the university on behalf of the foundation.	29
Retain custody and control of all indirect cost reimbursements.	32
Record in the university's records the receipt of all indirect cost reimbursements and subsequent disbursements.	32
Request a Board of Regents policy statement concerning entertainment expenses.	32
Retain custody and control of interest earned on university pooled cash, record interest earnings as revenue, and allocate interest earnings to the source that provided the principal for investment.	35

	Page
Retain custody and control of student aid bookkeeping charges and record these charges as university revenue.	35
Develop procedures to ensure prompt billings for federally-sponsored projects.	36
Terminate the practice of paying foundation employee payrolls with state warrants.	38
Terminate the foundation employees from the Public Employees' Retirement System and make public employees' retirement and teachers' retirement deductions only on salaries attributable to university work.	38
Comply with the provisions of Section 75-8503, R.C.M. 1947, by:	48
1. Spending student building fees for the construction of revenue producing facilities only, and	
2. Seeking legislative approval for all other expenditures of student building fees.	
Act immediately to correct problems in its payroll system or work with the Department of Administration and State Auditor in placing the payroll for all university employees on the central payroll system.	53
Establish procedures wherein:	55
1. The personnel office staff meet with newly hired and terminating employees.	
2. Employment and pay change authorizations are initiated in the personnel department rather than in the department which hired the employee.	
Centralize the maintenance of personnel files in one office under the control of the university personnel director.	56
All items affecting payroll be processed through the university payroll office.	56
The Board of Regents formulate a uniform policy governing benefits such as termination pay for academic employees and specify such benefits in academic contracts.	57
Rely on construction in progress accounting records maintained by the Architecture and Engineering Bureau and discontinue the maintenance of duplicate records at the university.	61
Assign responsibility for physical and accounting control of fixed assets to specific positions.	62
Conduct complete physical inventories at least every two years.	62

SUMMARY OF RECOMMENDATIONS (Continued)

	Page
Provide control accounts for land, buildings, and office equipment in the revised property accounting system.	62
Include in the agency funds all assets for which the university acts as custodian or fiscal agent.	63
Develop procedures to ensure that all year-end liabilities are recorded.	67
Properly differentiate between encumbrances and accounts payable in the financial statements.	67
Revise its accounting and reporting practices in accordance with guidelines prescribed by College and University Business Administration, 1974, the AICPA guide for Audits of Colleges and Universities, and the Report of the Joint Accounting Group.	71
Adopt sound procedures to develop financial statements, including the use of trial balances and documented adjusting and closing entries.	71
Improve control over cash disbursements by correcting internal control weaknesses.	73
Develop procedures to ensure that inventory records produce accurate information by:	75
1. Supervising the taking of physical inventory.	
2. Providing guidelines for costing inventory in a uniform manner.	
3. Ensuring proper cut-off procedures.	
4. Testing the accuracy of inventory records and making necessary corrections.	
Institute procedures to ensure an adequate review of travel claims for compliance with state laws and regulations.	76

MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

JOSEPH J. CALNAN
DEPUTY LEGISLATIVE AUDITOR

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the University of Montana as of June 30, 1973, and the related statements of operation listed in the table of contents of this report for the year then ended. Our examination was made in accordance with generally accepted auditing standards and with the audit requirements set forth in the applicable audit guides issued by the Department of Health, Education and Welfare for Audits of National Direct Student Loan Programs, Economic Opportunity Grants, and College Work Study Programs, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as indicated in the following paragraphs. We did not test the assets, liabilities or operations of food service, housing, field house, swimming pool or student union income facilities; bonds payable as reported in Investment in Plant; or the assets, liabilities, additions to and deductions from the Plant Funds for Debt Retirement. These programs and funds were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to amounts included for these programs and funds, is based solely upon the report of the other auditors.

The condition of the university's accounting records relating to investment in plant, including land, buildings, equipment and construction

in progress, was such that we were unable to carry out certain auditing tests and procedures which we deemed necessary to comply with generally accepted auditing standards.

A physical inventory has not been taken in recent years to provide assurance that the fixed assets reported are actually in the university's possession. Additionally, as described on page 57 of this report, the system of internal accounting controls and the accounting records are inadequate for the purpose of providing appropriate controls over fixed assets or for the purpose of providing reliable financial information. Accordingly, we do not express an opinion as to the university's investment in fixed assets, the Statement of Changes in Fund Balances for Unexpended Plant Funds or the Statement of Changes in Fund Balances for Net Investment in Plant.

The university transfers all grant revenue for research, training and education to the University of Montana Foundation. The receipt of the grants by the university, the transfer to the foundation and the subsequent expenditure from grants are not reported in the university's financial statements. As described on pages 16 and 27 of this report, grant and other revenue omitted from the financial statements for the fiscal year 1972-73 exceeded $1,300,000; however, the exact amount of unreported revenue cannot practicably be determined by us.

As described on page 66 of this report, encumbrances are incorrectly reported as liabilities in the university's financial statements. Liabilities are thereby overstated by at least $89,597 in unrestricted current funds, educational and general. Additionally, liabilities are understated by at least $43,808 in unrestricted current funds, auxiliary

enterprises. The improper reporting of these liabilities distorts both the balance sheet and the statement of current funds expenditures.

The university acts as fiscal agent for the University of Montana Foundation, the University of Montana Alumni Association, and the Associated Students' Store. University financial statements do not report asset or fund balances for these agencies. Consequently, agency fund balances presented are understated by approximately $900,000 at June 30, 1972, and $600,000 at June 30, 1973.

Accounting policies used by the university are not adequately disclosed in the financial statements or in notes thereto. Without the benefit of this disclosure, the financial statement reader cannot adequately interpret the university's financial statements. Additional reporting deficiencies are described on page 69 of the accompanying report.

In our opinion, based upon our examination and the report of other auditors, which report relates to compliance with revenue bond indentures, due to the material nature of matters discussed in the preceding paragraphs, the aforementioned financial statements do not present fairly the financial position of the University of Montana at June 30, 1973, the changes in fund balances or the current funds revenues and expenditures for the year then ended in conformity with generally accepted accounting principles.

We did not examine the financial statements for the year ended June 30, 1972, and accordingly do not express an opinion on them.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

January 31, 1975

COMMENTS

GENERAL

The University of Montana at Missoula was chartered February 17, 1893, by the Third Legislative Assembly. Later legislation changed the name to State University of Montana, then to Montana State University. On July 1, 1965, it again became the University of Montana. The university has grown from an initial group of 50 students and seven faculty members to an institution of more than 8,000 students and 450 full-time instructional staff members and is one of the largest of the six institutions of the Montana university system.

The university is under the general control and supervision of the eight-member Board of Regents of Higher Education. A local three-member executive board is appointed by the governor; however, this group is advisory in nature. Day-to-day operations are directed by the university president.

Charged with the responsibility of providing undergraduate education in the arts and sciences and professional education, the university offers bachelor degrees with majors in 56 fields of study. In addition, the university's graduate school has grown considerably since 1899 when the first graduate degrees were conferred in three fields of study. The graduate school now offers graduate degrees in 54 fields, with 13 programs of doctoral study.

The university is financed primarily by state appropriated moneys, student fees, and local auxiliary enterprises, such as the residence halls, food service, and student union. Moneys are also received from various other sources, i.e., student organizations, scholarships,

gifts, and grants. During fiscal year 1972-73 the university reported revenue of $20,321,662 from all sources. Of this amount, $3.6 million was reported as revenue from student fees, $9.2 million from state general, millage and land grant funds, $5.7 million from auxiliary enterprises, and $1.8 million from other sources.

We were assisted in our examination by representatives of the Department of Health, Education, and Welfare. Their work was primarily in the area of student financial aid. Since our prior audit, the university has made significant improvements in this area. Because of these improvements, this report presents no comments or recommendations in the area of student financial aids.

Certain sections of this report contain material discussed in audit reports relating to Western Montana College and Montana College of Mineral Science and Technology. The sections concerning constitutional status, university accounting and the statewide budgeting and accounting system, and university-foundation transactions provide information which is applicable to all or several of the university units. These sections have been included here due to the importance of these matters.

CONSTITUTIONAL STATUS

Throughout our examination of the various units of the university system the question of university autonomy has arisen. Basically, the question of autonomy pertains to the extent to which the units of the university system are subject to the actions of the legislative assembly.

Prior to July 1, 1973, Article XI, Section 11, Constitution of Montana, provided in part:

> "The general control and supervision of the state university and the various other state educational institutions shall be vested in a state board of education, whose powers and duties shall be prescribed and regulated by law."

Pursuant to this provision and court decisions interpreting it, there was no question about the legislature's power to exercise complete control over the university system. The legislature has exercised final authority over the supervision, coordination and management of the system in the past through legislative enactments in the areas of budgeting requirements, appropriation measures, personnel benefits, etc.

On July 1, 1973, Montana's new constitution became effective, replacing in its entirety the prior constitutional provisions relating to the control of the university system. The Constitution of Montana now provides in Article X, Section 9(2)(a), that:

> "The government and control of the Montana university system is vested in a board of regents of higher education which shall have full power, responsibility, and authority to supervise, coordinate, manage and control the Montana university system and shall supervise and coordinate other public educational institutions assigned by law."

In contrast to the foregoing constitutional provision, Article VIII, Section 12, of the Constitution, requires that:

> "The legislature shall by law insure strict accountability of all revenue received and money spent by the state. . . ."

Pursuant to the foregoing constitutional provisions, the Board of Regents has certain authority and responsibility over the university system and the legislature has certain authority and responsibility over the revenue and expenditures of state agencies. The issue has been whether the legislature, by statutory enactment, may regulate deposit of university revenues, expenditure of university funds, travel expenses, employee benefits, accounting system, property management, and other matters relating to the operation of the university system.

The Attorney General addressed these issues in an opinion dated January 31, 1975. He held that statutes related to 1) the investment of state moneys, 2) employee benefits and vacation leave (except for school

teachers), 3) deposit of moneys, and 4) line-item appropriations and conditions are applicable to the Board of Regents and the separate units of the university system. (See Appendix I). Therefore, in this report we have described instances noted where the university is not in compliance with relevant laws.

UNIVERSITY ACCOUNTING AND THE STATEWIDE BUDGETING AND ACCOUNTING SYSTEM

The Department of Administration has developed the Statewide Budgeting and Accounting System (SBAS) which is presently the required accounting system for all state agencies except the university system. The Department of Administration exempted the university system from exclusive use of the SBAS because it could not provide financial information and reports in accordance with the fund accounting system desired by the university units. Consequently, some of the university's financial transactions presently are recorded in two accounting systems, the SBAS and the university's own accounting system.

As discussed in our audit reports of Western Montana College and the Montana College of Mineral Science and Technology, moneys at the university units are generally categorized as either "state" money or "local" money. In practice, "state" moneys consist of the moneys traditionally deposited in the state treasury and appropriated by the legislature from sources such as the General Fund and Earmarked Revenue Fund. In contrast, "local" moneys consist of all other moneys available for use by the university units from a number of sources, such as interest income, reimbursements of costs, the incidental sale of goods and services, and auxiliary enterprises. The two major differences between state and local moneys are that (1) state moneys are deposited in, or at least pass through, the state treasury whereas local moneys do not, and (2) state moneys are correlated with a legislative appropriation whereas

local moneys are not. These differences are evidently not the result of a deliberate legislative or executive plan or design, but rather appear to be the result of years of tradition unique to the university system. Consequently, some moneys pass through the state treasury and are appropriated, while other moneys are neither deposited in the state treasury nor specifically appropriated.

Basically, transactions involving state moneys are recorded in SBAS, and transactions involving local moneys are not recorded in SBAS. All of the university's financial transactions are recorded in the university's accounting system. Essentially the university's system provides full reporting, but the majority of the university's financial activity is also reported in SBAS. During fiscal year 1972-73, expenditures reported in the university's accounting system were approximately $26,000,000, while the expenditures reported in SBAS were approximately $15,000,000, or approximately 58 percent of the actual total expenditures. A much smaller percentage of accounting transactions is recorded in SBAS. For example, several accounting transactions are recorded in the university's books for each of approximately 8,000 students who register each quarter. When this money is sent to the treasurer, only one transaction is entered into SBAS.

Generally, accounting systems are intended to provide management and other interested parties with accurate, relevant, and timely information for decision-making purposes. Because different types of organizations and different managers need different types of information, not all accounting systems are, or should be, the same. However, over the years a set of generally accepted accounting principles has been developed and is used by most businesses. Similarly, to meet the special needs of governmental organizations, a set of generally

accepted accounting principles for governmental organizations has been developed and is generally followed by most governmental units in the United States. Due to the variety of funding sources available to universities and outside limitations imposed on the use of some funds, present accounting needs of universities vary somewhat from the needs of other governmental organizations.

In 1968 the American Council on Education (ACE) developed and recommended a fund accounting system for colleges and universities (College and University Business Administration). The American Institute of Certified Public Accountants (AICPA) has recommended that a fund accounting system substantially the same as that recommended by the ACE be implemented by colleges and universities for fiscal years beginning after June 30, 1973, (Audits of Colleges and Universities). In addition, the Joint Accounting Group (JAG) issued a report in March, 1974, amending and adding to this fund accounting system. In late 1974 ACE updated its manual, incorporating the AICPA and JAG recommendations. Many colleges and universities have already implemented the system recommended by the AICPA, JAG and ACE, and near universal use of the system is expected within the next few years. The accounting system used by the university was intended to conform with the fund accounting system originally recommended by ACE.

The university's accounting system and the related management information system leave much to be desired. Portions of the university's accounting system are not fully automated, and portions of the automated system are not well integrated. As described on pages 73 and 57, inventory accounting and property accounting are not integrated with the primary accounting system.

Financial statements for the university as a whole are prepared annually only, and then are not generally available until seven or eight

months after the financial statement date. For example, this audit report relates to the university's financial statements for the fiscal year 1972-73, because the financial statements for fiscal year 1973-74 were not available as late as April 15, 1975, thereby precluding a more current audit.

While monthly statements of transactions are available by university department, requests for additional financial information by management are handled on an individual basis and often take days to fulfill. There are no procedures for providing timely financial information to top university officials. Emphasis should be placed on developing timely financial information for use by top management.

SBAS was not developed specifically for universities and, consequently, is not the same as the accounting system recommended by the ACE, the AICPA, or the JAG. Although SBAS may have the capability, it is presently not designed to provide information of the type or in the format recommended for colleges and universities and desired by the state university system. However, this does not mean that SBAS could not be modified or a subsystem designed to accommodate the university and college needs.

In November, 1974, the Commissioner of Higher Education discussed university accounting needs in his comments on audits of Western Montana College and the Montana College of Mineral Science and Technology. The Commissioner noted that SBAS cannot handle university accounting requirements unless it is modified, and that centralizing university accounting would not be efficient or economical. The Commissioner concluded, "We view as major objectives of our college and university accounting systems the fulfillment of internal management needs and meeting the information requirements of the executive and legislative branches of government."

A first step toward providing useful accounting information is the development of a uniform accounting system, with each of the six university units recording transactions in a similar manner. Although SBAS may require extensive modification, it should not be assumed that it would be inefficient or uneconomical to perform these modifications and thereby utilize resources which have already been developed by the Department of Administration. There is certainly no need to develop six accounting systems for the university units. While each unit differs somewhat in its management information needs, each is similar in structure and operation.

Currently, at the five units which we have recently audited, accounting policies and procedures differ significantly. These differences affect the usefulness and comparability of financial reports issued by each unit. For example, each unit accounts for plant, property and equipment transactions in a different manner. The units account for gift and grant revenue differently; costs are allocated to auxiliary enterprises differently; and while some financial statements present costs by program, one unit presents costs by type, i.e. personal services, capital expenditures. Some accounting practices at individual units are not in accordance with generally accepted accounting principles.

Because the accounting systems at each unit are not comparable, reliance solely upon the units' present accounting systems is not a suitable solution for obtaining reliable financial information on a comparative basis. To develop more complete and comparable accounting information, the university system must implement uniform accounting policies and procedures.

Since the university system must comply with state fiscal laws and regulations, all moneys will have to be deposited in the state treasury pursuant to Sections 79-201, 79-306, and 79-601, R.C.M. 1947. As the state's treasury function now operates, deposit of all university moneys in the state treasury will automatically place the university system on SBAS. If SBAS is not modified to provide information in the method desired by the universities, they will probably retain their own accounting systems, and thus enlarge the existing duplication. Conceivably, the universities could, in conjunction with the Department of Administration, develop a new accounting system and procedures to account for moneys in the state treasury without duplication in recording transactions.

RECOMMENDATION

We recommend that representatives of the university system work with the Department of Administration to develop an accounting system to satisfy legislative and university requirements.

INVESTMENT OF UNIVERSITY FUNDS

Article VIII, Section 13, of the Montana Constitution stipulates that the legislature shall provide for a unified investment program for public funds. Article X, Section 10, provides that the various funds of the Montana university system shall be invested under such regulations as may be provided by law. Section 82A-204, R.C.M. 1947, provides that the Board of Investments has the sole authority to invest state funds and that no other agency may invest state funds.

The Attorney General has held that the provisions of sections 79-308 and 82A-204, R.C.M. 1947 are applicable to the Board of Regents

of Higher Education and the separate units of the Montana university system. The full text of the applicable Attorney General's opinion is included as Appendix I of this report on page 99.

The university carried out its own investment program during fiscal year 1972-73. As of June 30, 1973, the university held investments totaling $1,320,000, mostly in certificates of deposit at local banks. All investment transactions, including buying, selling and recording interest were made by the university treasurer. In addition, the treasurer originated and retained supporting documents for each transaction. Interest checks were placed in the treasurer's control before being mechanically receipted or restrictively endorsed.

Investments consisted of money pooled from the student loan fund and other local money, such as fees and collections not deposited in the state treasury, auxiliary enterprise revenues, and agency account money. Operation of an investment pool requires distribution of investment earnings to the participating accounts. The university gave all pooled investment earnings to the University of Montana Foundation, as described on page 17.

The university does occasionally utilize the Board of Investments' short-term investment pool (STIP) in conjunction with local investments. University officials consider participation in STIP to be voluntary, and they continue to invest locally. Full participation in STIP will result in better internal control procedures since an independent agency will perform the buying, selling and recording of investments. Interest earnings will be recorded at the Board of Investments before being transferred to the university.

The deposit of university moneys in the treasury was addressed in a previous audit report (University of Montana, 1970) and more recently by

the Attorney General (See Appendix I). The university's compliance with the law regarding the deposit of moneys in the state treasury will facilitate the services of the Board of Investments and should correct the weaknesses presently existing in the investments area.

RECOMMENDATION

We recommend that the university deposit all moneys in the state treasury and utilize the investment services of the Board of Investments.

Student Fees Paid With Bank Charge Cards

The university allows students to pay registration and other fees using bank charge cards. Businesses which accept bank cards are usually assessed a percentage discount of receipts by the bank as a fee for the bank service. For example, a merchant might receive a $97 deposit credit at the bank on a $100 sale. University deposits from bank cards, however, were not discounted during fiscal year 1972-73. The university arranged with a local bank to leave all fee proceeds in non-interest bearing accounts at the bank as a compensating balance in lieu of a discount and to withdraw the money annually in June.

Such an arrangement contravenes state law concerning deposit of money in the state treasury. Section 79-306, R.C.M. 1947, requires all state agencies to deposit daily all moneys with the state treasurer or with a bank or savings institution designated by the state treasurer. The Attorney General recently held that this statute applies to the Board of Regents and to each unit of the university system. (See Appendix I). The university should not retain the money for an entire year in a special bank account but should deposit the money in the treasury as required by law.

In addition to contravening state law, the arrangement with the banks represents a poor business decision. For example, the university was relieved of paying bank service charges of approximately $4,000 during fiscal year 1973-74 by leaving the money in a special account. Had the discount been taken and the money invested in the state's short term investment pool (STIP), interest earnings would have been approximately $5,000.

The university must develop new procedures if use of bank cards is considered a necessary student service. The university might require students using bank charge cards to pay an additional fee similar to that charged students using the deferred fee plan. Whatever future arrangements are made, the university should ensure that use of bank cards results in compliance with the law.

RECOMMENDATION

We recommend that the university revise the present bank card arrangements to comply with state law and acceptable business practice.

REVENUE

Significant amounts of revenue were received by the university during the fiscal year 1972-73 and not reported in the university's financial statements or to the legislature. Amounts of unreported revenue vary between $8,343 for library service charges to more than $1,000,000 in grants which were received by the university and subsequently given to the University of Montana Foundation. The revenue was reported in the University of Montana Foundation's financial statements.

Below is a summary of revenue unreported in the university's financial statements, which came to our attention:

Grants for research, training and education	$1,019,806
Interest earnings	131,270
Indirect cost reimbursements	75,546
Reimbursement for administration of student aid programs	31,915
Accounts receivable, AFIT	34,360
Installment fee collections	8,653
Library operations	8,343
Total	$1,309,893

The items listed above represent a material omission in the university's financial statements. Each category of unreported revenue is discussed below. The first four items, grants, interest earnings, indirect cost reimbursements and reimbursements for student aid programs concern the university's relationship with the University of Montana Foundation. A more detailed discussion of these items and our recommendations are presented in this report beginning on page 27.

Grants for Research, Training and Education

Each year the University of Montana receives scores of grants from federal, state, and private sources. During fiscal year 1972-73, more than $1,000,000 in grants was given to the university. The training, research, and educational activities performed with grant funds utilized University of Montana facilities. The administration, training, research, and teaching were performed by university personnel. In addition, computerized record keeping for grants was performed by university personnel using university facilities.

One $300,000 grant, for example, provided 75 percent of the money to support the Department of Social Work on the university campus. University officials stated that the grant enriched the university by permitting a lower student/teacher ratio in that department. The grant provided salaries for instructors, money for equipment, supplies, and indirect costs. Students completing the required work received undergraduate degrees in social work. Revenue and expenditures associated

with this grant do not appear on the university's financial statements and are not reported to the legislature.

The university gave all such grants to the University of Montana Foundation. The foundation's financial statements include the grant revenue; however, the university's statements make no reference to the foundation's activities.

It is impractical to determine the exact amount of unreported grant revenue given to the university. The amount of $1,019,806 is a minimum figure, confirmed during a review of certain transactions recorded by the foundation.

Giving the grant moneys to the foundation does not relieve the university of the responsibility of reporting the receipts and expenditures. Governmental grants and contracts, as well as private grants, should be reported as revenue in amounts equal to direct costs incurred and indirect costs recovered.

Inasmuch as the foregoing also pertains to the relationship between the university and the foundation, our recommendations in this area are made in that section of the report on page 29.

Interest Earnings

During fiscal year 1972-73, the university earned interest of $131,270. The university treasurer invested excess cash in certificates of deposit at local banks. The invested funds were a combination of "state" and "local" funds. The "local" funds included receipts from auxiliary enterprises, such as the field house or intercollegiate athletics, as well as agency funds, such as student activity fees and foundation money.

During the year the university also established a special savings account into which student fee revenue was deposited before being remitted to the state treasurer. This account earned interest of more than $25,000.

The university did not report the interest revenue in their financial statements. Instead, the entire amount was given to the foundation. A portion of the interest earnings was spent in support of the university and a portion in support of the foundation. The remainder was retained by the foundation.

Proper accounting procedures require that these earnings be recognized as revenue by the university and distributed into the accounts which provided the principal for investment.

Inasmuch as the foregoing also pertains to the relationship between the university and the foundation, our recommendations in this area are made in that section of the report on page 35.

Indirect Cost Reimbursements

Indirect cost reimbursements are designed to reimburse the university for overhead charges incurred while administering grants. Most grants include reimbursement for salaries, wages, benefits, and materials and supplies needed to comply with the grant. Indirect cost reimbursements provide money for such expenses as bookkeeping, use of fixed assets, and janitorial services. During fiscal year 1972-73, $275,546 for reimbursement of indirect costs was given to the university, but was received and recorded in the foundation's indirect cost account. The university's financial statements report $200,000 as the amount of indirect cost reimbursements which the foundation transferred to the university. In fact, the foundation income account was the actual source of this transfer. (See page 33.) The entire $275,546 was retained by the foundation and not declared as university revenue even though it was designed to reimburse the university for expenses incurred in administering grants.

Inasmuch as the foregoing also pertains to the relationship between the university and the foundation, our recommendations in this area are made in that section of the report on page 32.

Reimbursement for Administration of Student Aid Programs

The university student aid office administers the National Direct Student Loan, Equal Opportunity Grant and Work Study programs. These programs allow the university to retain an amount equal to three percent of the total loans or work study salaries to offset the costs of administering the programs. During fiscal year 1972-73 the university earned $31,915 from these programs but did not record this amount as revenue. Instead, it was given to the foundation.

We could find no justification for this unusual transaction. The foundation performs no function in this area. All expenses incurred in administering these programs are incurred by the university. The effect of this transfer was to reduce funds available to the university for the offset of operating expenditures.

Inasmuch as the foregoing also pertains to the relationship between the university and the foundation, our recommendations in this area are made in that section of the report on page 35.

Accounts Receivable

The Air Force Institute of Technology (AFIT) participates with the university to provide graduate education for active duty Malstrom Air Force Base personnel. The federal government provides reimbursement of direct costs for salaries and supplies and reimbursement for indirect costs incurred. At June 30, 1973, the AFIT program owed the university $68,496. At June 30, 1972, the program owed the university $34,136. These accounts receivable were not recorded or billed by the university

in a timely manner. Although subsequently collected, the result was a $34,360 understatement of revenue for the year.

RECOMMENDATION

We recommend that the university:

1. *Promptly bill the AFIT program for costs incurred.*
2. *Recognize unbilled accounts receivable and ensure that unbilled reimbursable costs are reported as revenue in the university financial statements.*

Installment Fees

In 1972 the Board of Regents authorized the university to allow students to defer payment of fees. After payment of a $5 fee for administrative expenses the student may pay 1/3 down and the balance within 60 days. Collections of this $5 installment fee totaled $8,653 during fiscal year 1972-73. None of this was recorded as revenue. From inception of the deferred payment plan until June 30, 1974, more than $31,000 was collected, none of it being used to offset administrative expenses.

University officials explained that because of a lack of clearly defined policy, deferred payments are considered as loans, and the deferred fees and administrative charges are accounted for as student loan funds. When a student defers fees, money is borrowed, and the full amount of fees is eventually transferred to the state treasurer. Student repayments are made to the "loan fund." If a student fails to pay the deferred fees, university officials believe that the $5 administrative fee should reimburse the "loan fund," since loan funds were used to initially pay the fees.

Between September, 1972 and June, 1974, less than $650 in bad debts were written off against this account. None of these write-offs were associated with the deferred payment plan. University officials believe that a bad debt history must be developed before they can determine the adequacy of the amount provided by the $5 administrative fee for covering bad debts.

University officials should determine whether the $5 administrative charge is designed to reimburse the business office for expenses incurred in administering the deferred payment plan, or whether the Board of Regents intended this charge to be used to offset bad debts. In either case, the fees should be recognized by the university as revenue.

RECOMMENDATION

We recommend that the university determine the proper use of administrative charges for deferred fees and record those fees as revenue.

Library Operations

The university library collects service charges and lost book charges from library users. For fiscal year 1972-73, the university financial statements show $1,974 in library revenue. An additional $7,499 collected by the library during the year did not appear on the financial statements. Instead of being recorded as revenue, the funds were transferred to the library's academic development account in the foundation. This account had a balance of $17,614 at July 1, 1972. During fiscal year 1972-73, $8,343 was transferred out of the foundation account and returned to the library budget. However, this amount was not recorded as revenue to the university, but as a reduction of expenditures. The entire $8,343 should have been classified as revenue to the library, rather than as an offset to expenditures.

By transferring money to the foundation, actual library revenue is not disclosed in the financial statements. Transferring the money back to the library in the manner described above understates library expenditures.

RECOMMENDATION

We recommend that the university record library service charges and lost book collections as revenue and discontinue transferring these funds to the foundation.

Conclusion

Because of the omissions outlined above, the university's statement of revenue is misstated by more than $1,300,000. It was impractical to determine the exact amount of unreported revenue, but it is less than $2,000,000. This money was available to the university but not reported to the legislature. Much of this revenue was given away to a separately incorporated entity, the University of Montana Foundation. Because of this misstatement, the university's financial statements are misleading to the legislature and other users.

Most of this money was restricted, in that it could be spent only for specific purposes; however, at least $250,000 of the unrecorded revenue should have been available to offset university operating expenses. Instead, much of it was given to the foundation. The money was then available for discretionary purposes by the university and the foundation. The university's relationship with the foundation and our recommendations are discussed in the following pages.

UNIVERSITY-FOUNDATION TRANSACTIONS

In our recent audit report on Montana College of Mineral Science and Technology (November, 1974), we raised several issues with respect to the relationship between the college and its privately incorporated foundation. Many of the same issues were addressed during our audit of the university.

Higher education in the United States has always received financial support from private individuals and groups not directly affiliated with any education institution. Harvard, the nation's oldest university, is said to have been established in 1636 through two cash gifts and the donation of a library. Throughout these early years Harvard and other emerging universities were supported primarily by private gifts. At first the universities were able to operate on numerous small gifts, but as costs rose, so did the size of gifts, and eventually large philanthropic foundations were making sizable donations to educational institutions. Gifts were used for a variety of purposes, but the principal ones were: endowment funds wherein the principal remained inviolate and the fund income was used to finance college operations, construction of campus buildings, scholarships, and other student and faculty assistance.

Eventually, and especially with the advent of public universities, public tax moneys began flowing into the higher education system. By 1948 about 91 percent of the money for current operations for all colleges and universities (public and private) was derived from student fees; federal, state, and local government grants and appropriations; auxiliary enterprises such as dormitories and bookstores; and other miscellaneous sources. In contrast, gifts and endowment earnings accounted for only about 9 percent of current operating revenues. Gifts from individuals and foundations continue to be important but are not a predominant source of income for higher education.

During the 1930's, 40's and 50's, a new type of foundation, the university foundation, was established at many colleges and universities. These foundations were usually non-profit corporations established specifically to provide assistance to the university with which they were affiliated. They differed from the large philanthropic foundations in that they did not provide an original source of funds but rather, solicited and received funds from others and then used the money for the benefit of their parent institution. Since these foundations are closely aligned with particular institutions, the governing board of these foundations generally include board members and officers of the parent institutions.

Originally many of these university foundations were established primarily to receive gifts and grants from donors who preferred not to give money directly to the institutions themselves. In this regard, it was evident that funds obtained and controlled by the foundation were free of appropriation and legal constraints and could be used with a flexibility not available to the institution itself.

Presently, many educational foundations provide administration and fiscal management for research programs. At the larger institutions these research programs involve millions of dollars per year. In many instances the research is conducted by institution staff using institution facilities, and may be conducted under contracts between the foundation and a third party or between the institution and a third party.

The University of Montana Foundation was established in 1951 as a non-profit Montana corporation. The Articles of Incorporation state that it was formed for the following purposes:

"1. To accumulate and provide a fund, or funds, to be invested and reinvested, and to use the income and principal thereof to foster, encourage and develop educational facilities for the use of the University of Montana.

"2. To accumulate and provide a fund, or funds, to be invested and reinvested, and to use the income and principal thereof for the granting of scholarships, establishing educational aid programs, establishing research projects and to assist in the athletic program for students attending the various branches and departments of the University of Montana.

"3. To carry on, encourage and develop activities of such a nature and character as to publicize the activities and educational program of the University of Montana.

"4. To carry out the foregoing purposes the corporation shall have the power to receive, mortgage and convey real and personal property and to receive and distribute gifts and charities and/or carry out the obligations of any trust imposed by will or deed of trust or otherwise, where the trust created is for any charitable purpose.

"5. To generally do each and everything necessary, suitable or proper for the accomplishment of any of the purposes herein enumerated.

"6. In the exercise of these powers, no part of the net earnings of the corporation shall inure to the benefit of any member, trustee, officer of the corporation, or any private individual (except that reasonable compensation may be paid for services rendered to or for the corporation affecting one or more of its purposes), and no member, trustee, officer of the corporation, or any private individual shall be entitled to share in the distribution of any of the corporate assets on dissolution of the corporation. No substantial part of the activities of the corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and the corporation shall not participate in, or intervene in (including the publication or distribution of statements) any political campaign on behalf of any candidate for public office.

"Notwithstanding any other provision of these Articles, the corporation shall not conduct or carry on any activities not permitted to be conducted or carried on by an organization exempt under Section 501(c)(3) of the Internal Revenue Code and its Regulations as they now exist, or as they may hereafter be amended."

The foundation is governed by a 28-member board of trustees and employs a director with offices on the university campus. The University President is an ex officio trustee, and the University Business Manager is the Treasurer for the foundation.

The foundation is a separate corporate entity rather than a state agency. It is typical of the university foundations in that it is not an original source of funds. Instead, the foundation acts as a fund raiser for various scholarships and endowments and solicits gifts for the university. The foundation also records receipt and disbursement of gifts and grants received directly by the university.

Foundation activities can be divided into two parts.

1. Fund-raising activities. These activities are performed primarily by foundation employees, although the university does provide administrative assistance for fund-raising efforts. Most gifts, scholarships and endowments are received in the name of the foundation and are administered by the foundation or jointly with university personnel.
2. Record keeping and administrative assistance for educational, training, and research grants performed at the university. The bulk of foundation activity is in this area. Grants are received primarily from government sources.

Most grants are received in the name of the university, and the research and training is performed on the university facilities by university personnel. Foundation personnel assist with record keeping for the various grants and assist in developing grant proposals.

The following table illustrates the source of foundation receipts.

University of Montana Foundation
Cash Receipts by Source
Fiscal Year 1972-73

Source	Amount		Percentage of Total Receipts
Grant Receipts			
Federal	$2,119,756		49%
State of Montana(1)	680,679		16
Private(1)	536,457		13
Indirect Cost	275,546		6
Total Grant Receipts		$3,612,438	84
Other Receipts			
Registration Fees	97,352		2
Gifts	227,361		5
Century Club Program	113,704		3
Earnings on Investments(2)	218,286		5
Other	13,930		1
Total Other Receipts		670,633	16
Total Receipts		$4,283,071	100%

(1) Approximate amounts.

(2) Includes $131,270 interest earnings from university pooled cash accounts.

Research and Training

The university receives numerous research and training grants from governmental agencies and private sources. These grants are accepted under the authority of Section 75-8801, R.C.M. 1947, which authorizes university units to engage in research programs and to accept grants to conduct research.

Grants are received for such diverse purposes as funding the Department of Social Work, studying altered ribosomal subunits, and training personnel in the education of the handicapped.

The university does not record or report the grants received or the associated research costs. Instead, grants received in the university's name are deposited into foundation accounts. Our review of selected

foundation transactions disclosed over $1,000,000 in grant revenue given to the university by government and private sources during fiscal year 1972-73. Neither the receipt nor associated expenditures were reported on university financial statements.

Presently the foundation administers all university grants. The foundation accounting office, located across campus from the university business office, performs most of the administrative work associated with grants. Foundation accounting personnel approve all grant payroll expenditures and purchases, and all grant accounting entries are approved by foundation personnel.

This dual arrangement, whereby the business administration of research and the remainder of the business function are separate, does not provide a benefit to the university. Instead, such an arrangement is a detriment to the university's business structure. Since most grants are given to the university and grant activities are performed by university personnel, university officials are responsible for proper administration of the grants. Administrative decisions, however, are currently made by foundation personnel.

In addition, the university's financial statements are misleading. The statements do not indicate that several million dollars in grant projects for research, training and education are performed each year at the university. Instead, information concerning grants is found in the foundation's separately published financial statements.

A reversal of the present university-foundation relationship would provide a logical and systematic approach to grants administration.

Rather than transferring money to the foundation, the university should retain the money and administer grant projects. When a grant involving the university is received by the foundation, the money should

be transferred to the university. Regardless of who obtained the grant, if the work is to be performed by the university, the university should administer the grant and control the money.

Shifting the full administrative responsibility to the university business office should be an easy task constituting little more than minor reorganization of personnel and retitling of employees. The foundation accounting office presently relies upon the university for computer services, banking services, and clerical operations dealing with cash receipts and disbursements, purchasing and payroll. Since the university already performs these operations, it could easily retain administrative control of all grant money.

The university should assess its relationship with the foundation and ensure that university and foundation functions are properly organized.

The foundation's role should not include administering grant projects which are performed by university personnel using university facilities. Instead, the foundation should work to obtain grants for the university. Soliciting gifts, scholarships and endowments is also a proper foundation activity, since the university derives a benefit from these moneys.

RECOMMENDATION

We recommend that the university:

1. *Record the receipt of all grants and the subsequent disbursement and expenditures on the university's records.*
2. *Administratively control all grant moneys and all grant projects which are performed on university facilities.*
3. *Establish written contracts for all work to be done by the foundation on behalf of the university, or to be done by the university on behalf of the foundation.*

Foundation Income

The numerous research, training, and education grants received each year provide money for salaries, supplies, equipment, and other items necessary to meet the requirements of the grant. In addition, most grants contain a provision for reimbursement of indirect costs. Indirect cost reimbursements are for expenses associated with various grants, but not strictly identifiable to one grant, such as janitorial work, accounting services, utilities, and use of university assets. During fiscal year 1972-73 indirect cost reimbursements totaling $275,546 were collected from various grants. This money was deposited in the foundation indirect cost account.

During the year the foundation did not transfer any funds to the university to defer general operating expenses. Disbursements from the indirect cost account totaled $149,685. These expenditures funded grants administration, which includes the foundation accounting office; numerous small research projects on the university campus; and $40,581 was allocated for expenditure at the discretion of department chairmen in the departments where research and training were taking place. The summary below shows the source and disposition of indirect cost reimbursements for fiscal year 1972-73:

Foundation Indirect Cost Account
Year Ending June 30, 1973

Fund Balance, July 1, 1972		$ (5,878)
Indirect cost reimbursements received		275,546
Expenditures		
Grants research and administration	75,491	
Academic departments	40,581	
Small research grants	30,000	
Other	3,613	
Total expenditures		149,685
Fund Balance, June 30, 1973		$119,983

The university's financial statements report $200,000 of indirect cost reimbursements received during fiscal year 1972-73. The actual transfer of $200,000 to the university was not from the indirect cost account. Rather, funds were transferred from the foundation income account which received interest on the investment of university money.

Expenditures from the indirect cost account were not subject to legislative budgetary control. The academic development accounts, for example, are best described as discretionary funds. As shown above, more than $40,000 of indirect cost revenue was placed in these discretionary funds during fiscal year 1972-73.

Although certain departments spend the money for equipment, supplies and travel expenses, other departments use the money for items not clearly in the best interest of the university. In 1965 the university president directed that the accounts be used for materials and supplies, but the money in the academic development accounts is often used for such items as gifts, parties, and entertainment. In this regard, the university internal auditor determined that expenditures for entertainment during fiscal year 1973-74 were approximately $7,000.

The Board of Regents have not addressed the question of allowable entertainment expenses in a policy statement, and university policy does not resolve the issue. If entertaining expenses are considered necessary university expenditures, the university should seek policy approval from the Board of Regents.

Indirect cost reimbursements are designed to compensate the university for overhead expenses incurred by the university in administering a grant. Indirect cost reimbursements are given to the university <u>after</u>

the expenses have been incurred. The university has used appropriated funds to initially pay for the expenses. Under the present system, however, the reimbursements become discretionary funds not subject to state control. This is accomplished by giving all indirect cost reimbursements to the foundation.

Foundation administrative expenses relating to grants are totally paid for by indirect cost reimbursements. The indirect cost reimbursement money remaining after foundation operating expenses are paid is not under the spending control of the university, but of the foundation. The university has passed control of these funds to a non-state, separately incorporated entity over which the University of Montana and the Board of Regents have no legal authority.

RECOMMENDATION

We recommend that the university:

1. *Retain custody and control of all indirect cost reimbursements.*
2. *Record in the university's records the receipt of all indirect cost reimbursements and subsequent disbursements.*
3. *Request a Board of Regents policy statement concerning entertainment expenses.*

Other Foundation Income

The foundation also receives income from other sources. The following table lists sources and expenditures of that income.

Foundation Income Account

Year Ending June 30, 1973

Fund Balance, July 1, 1972		$466,190
Additions		
Bookkeeping services	$ 37,240	
Earnings on investments	131,270	
Transfer from investments	43,098	
Loan repayment	13,000	
Other	2,835	
Total Additions		227,443
Deductions		
Foundation administration	29,100	
U of M support	200,000	
President's special projects	4,593	
Transfer to academic development	4,800	
Other	3,195	
Total Deductions		241,688
Fund Balance, June 30, 1973		$451,945

The transfer from investments and the loan repayment are not revenue but a return of cash. They appear with revenue items because the foundation's financial statements are presented on a cash basis.

During fiscal year 1972-73, the foundation received $168,510 from bookkeeping services and earnings on investments. That the foundation received this money is highly unorthodox. The investments were made by the university treasurer from pooled cash belonging largely to the university. All earnings were transferred to the foundation and none were recorded as revenue in the university's financial statements.

The bookkeeping charges were primarily administrative fees collected on student aid programs. The Work Study program, National Direct Student Loans and Equal Opportunity Grants were assessed approximately $32,000 during fiscal year 1972-73 to reimburse the

university for expenses incurred in administering the programs. The foundation performed no services for the university in this area except to receive the reimbursement. The administrative fees should have been used to reimburse appropriated funds, and the departments that incurred the administrative expenses, the Financial Aids Office and the Business Office, should have received the funds.

Expenses in the Foundation Income Account totaled $241,688. This account provided $200,000 for general university support. Also funded from this account was a portion of the cost of foundation administration, primarily the public relations and fund raising activities of the foundation. The president's special project account received $4,593 for use in the legislative intern program, the National Honor Society and the university marching band. An additional $4,800 was also transferred to the academic development accounts of the university wildlife unit and the College of Arts and Sciences.

The foundation is primarily funded with university money such as indirect cost reimbursements, interest earnings and administrative expenses. The table below indicates that the foundation is increasing its combined cash balances at the expense of the university.

Year Ended June 30,	Combined Year-End Balance of Income and Indirect Cost Account
1970	$331,151
1971	441,728
1972	460,311
1973	571,928
1974	615,027

RECOMMENDATION

We recommend that the university:

1. *Retain custody and control of interest earned on university pooled cash, record interest earnings as revenue, and allocate interest earnings to the source that provided the principal for investment.*
2. *Retain custody and control of student aid bookkeeping charges and record these charges as university revenue.*

Unbilled Costs of Sponsored Programs

Unbilled costs of federally sponsored programs at June 30, 1973, totaled $597,352. These costs, which were incurred during the performance of various grants, were billed and collected during the next fiscal year. Billings for such costs may be submitted monthly by cash request, which generates a check to the university, or by letter of credit, which results in a credit to the university's checking account. During fiscal year 1972-73, the foundation submitted only four letters of credit relating to National Science Foundation grants and only three cash requests relating to Department of Health, Education and Welfare grants. At one point during the year, the foundation accounts had a negative cash balance due to untimely billings.

As previously mentioned, all funds received for grants performed at the university are given to the foundation. Because the foundation receives all grant revenue, it also has the responsibility for billing the grantor for expenses incurred. Proper management of resources requires that the foundation promptly recover costs on federally-sponsored projects. Although it is impractical to determine the amount of interest lost due to billing lags, prompt billing of sponsored projects could undoubtedly increase earnings.

RECOMMENDATION

We recommend that the university develop procedures to ensure prompt billings for federally-sponsored projects.

Foundation Employees Participate in the Public Employees' Retirement System

During fiscal year 1972-73, the foundation employed seven people on a full-time basis who worked solely for the foundation and did not work for the university. However, these foundation employees were paid through the university payroll. The names of the foundation employees are simply added to the university payroll and they are paid by state warrant along with the other university employees. The foundation reimburses the university for the salaries and benefits of its employees.

In addition to the full-time employees, university staff members who work part-time on research grants may be considered to be part-time foundation employees when performing the research. The regular university pay and the research pay of these staff members are processed with the university payroll. The foundation reimburses the university for the salary and benefits attributable to research work.

Deductions for the state retirement system are taken from foundation employees' pay, and they participate in the public employees retirement system. Section 68-1601(1), R.C.M. 1947, states that all employees shall become members of the Public Employees' Retirement System on the first day of employment. Section 68-1503(5) R.C.M. 1947, and (25) defines "employees" as persons employed by the State of Montana, its university or any of the colleges, schools, components or units thereof, or any political subdivision or governmental entity which has contracted to come into the system. Section 68-1602(4) R.C.M. 1947, excludes from membership independent contractors unless a written contract specifies

the creation of an employer-employee relationship for purposes of retirement coverage. In a 1970 letter opinion to the Legislative Auditor, the Attorney General held that in cases where a university faculty member's salary was paid partially by the university and partially by a foundation, the university should contribute to the Public Employees Retirement System only in proportion to the amount of salary paid by the university.

As a separate legal entity, the foundation does not qualify as a state agency, component of the university system, or political subdivision, and there are no contracts establishing an employer-employee relationship between the university and the foundation employees. Therefore, foundation employees should not be paid through the state payroll system and are not entitled to participate in the Public Employees' Retirement System, and the foundation may not make retirement contributions for employees who work part-time for the foundation. University contributions to the retirement system should be limited to amounts based on the employee's pay attributable to university work.

Certain employees who work part-time for the university and part-time for the foundation participate in the Teachers' Retirement System, and retirement contributions for these people are based on their combined university and foundation pay. Generally, Section 75-6209, R.C.M. 1947, limits membership in the Teachers' Retirement System to teachers, principals, and superintendents; administrative officers and instructional and scientific staff members of units of the university system; and other persons employed in an instructional capacity by various state institutions. Section 75-6207(1)(a), R.C.M. 1947, requires employers to make Teachers' Retirement System deductions from members' salaries, and

Section 75-6201(3) defines employer as the State of Montana, trustees of school district, or other agency or subdivision of the state. The foundation does not meet any of these criteria.

Although the previously cited Attorney General's opinion does not address the Teachers' Retirement System, the rationale regarding retirement contributions for people who work part-time for the university and part-time for the foundation should also apply to Teachers' Retirement System deductions. The university should contribute only on the basis of the salary attributable to university work, and the salary attributable to the foundation should be excluded from the publicly operated retirement system.

RECOMMENDATION

We recommend that the university:

1. *Terminate the practice of paying foundation employee payrolls with state warrants, and*
2. *Terminate the foundation employees from the Public Employees' Retirement System and make public employees' retirement and teachers' retirement deductions only on salaries attributable to university work.*

STUDENT BUILDING FEES

Students pay two building fees when registering for classes at the University of Montana. These fees are set by the regents pursuant to specific authority granted them by Section 75-8503 R.C.M. 1947. The first fee, established in 1935 is $5.00 per quarter. The proceeds of this fee were originally to be used for the erection, alteration, equipment, and maintenance of buildings at the university. Income could also

be pledged to secure loans from the federal government. The wording of the board item that established the fee was changed in 1936 and 1946, deleting the word maintenance and allowing the acquisition of land for building purposes or for purposes connected with student activities.

The second building fee of $15.00 was established by the regents in 1960 to be used for retirement of Montana State University (U of M) building fee revenue bonds totaling $2,500,000. The 1960 bonds funded construction of a health science building, a law school building, and an addition to the liberal arts building at the university. These revenue bonds were refunded in 1963 through the sale of Montana State University (U of M) building fee revenue bonds, series 1963, totaling $2,468,000.

Both building fees are also pledged for payment of University of Montana Student Building Revenue Bonds, Series 1971, totaling $2,640,000. The 1971 bonds were issued to finance an addition to, and renovation of, the field house, ($2.2 million) and renovation of the health service building ($440,000).

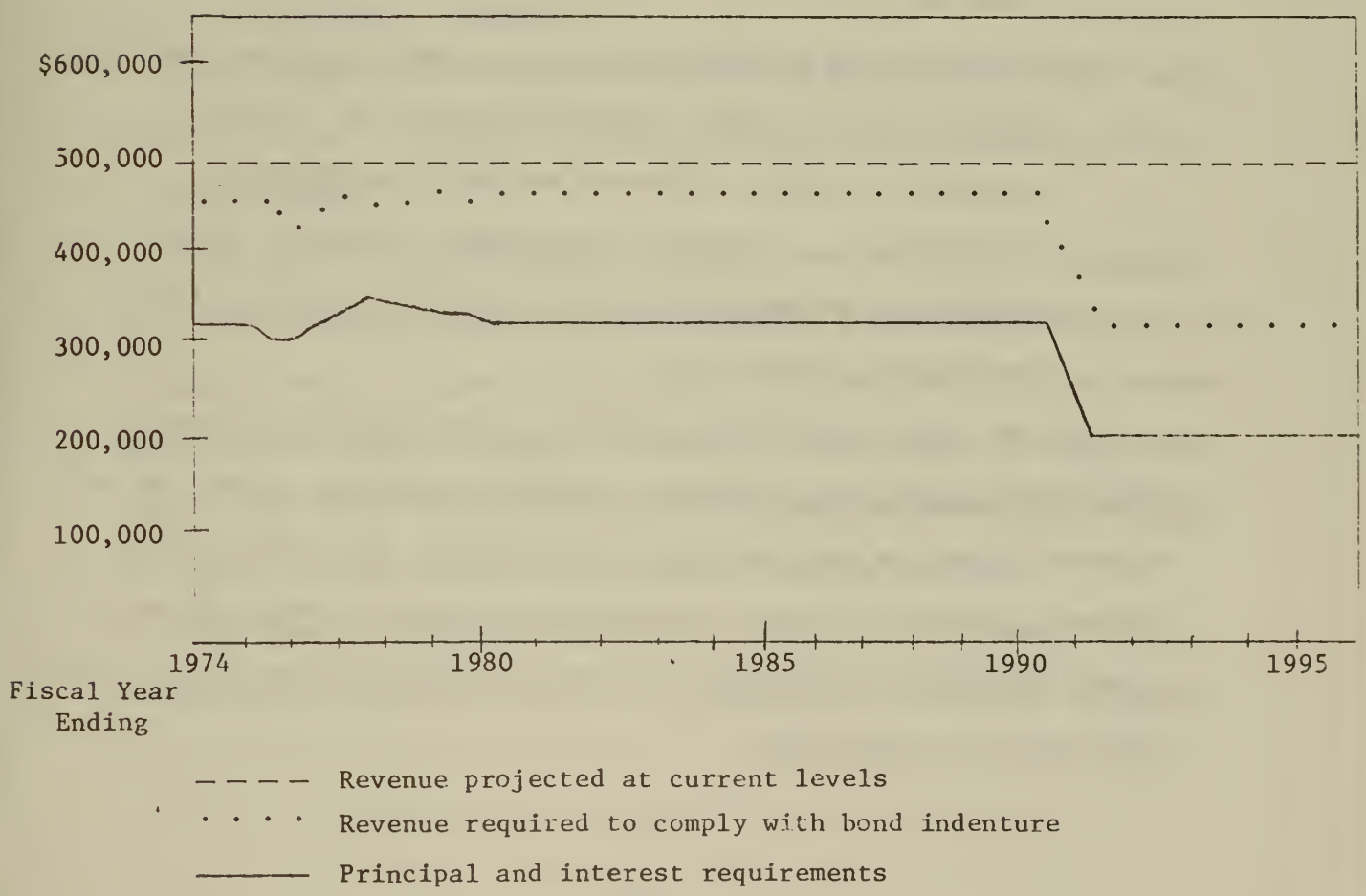
Major provisions of the indenture agreements for the 1963 and 1971 bonds require:

1. Revenue equal to 135% of principal and interest due each year.
2. Establishment of bond accounts to provide for current debt service.
3. Establishment of reserve accounts equal to the maximum of principal and interest due on any subsequent year.
4. Maintenance of student fees at not less than $20.00 per quarter for residents and $42.50 per quarter for non-residents.
5. An audit by a certified public accounting firm indicating that the indenture agreements are being complied with.

After the requirements of the indenture agreements have been met, the indenture agreements allow the regents to reserve the right to use any additional revenues for any other lawful purpose of the university.

Our review of student building funds indicates that there has been considerable revenue above the amount needed to meet debt requirements. The graph below illustrates the difference between revenue from student building fees and amounts required to pay interest and principal on outstanding bonds. It is obvious that anticipated revenue far exceeds the amount necessary to pay principal and interest each year and that surplus revenue also exceeds the indenture requirements.

UNIVERSITY OF MONTANA
1960 BUILDING FEE FUND
22 YEAR COMPARISON OF EXPECTED REVENUE
AND DEBT SERVICE REQUIREMENTS



Statutory Authority

Section 75-8503, R.C.M. 1947, provides statutory authority for the regents to use building fees. It authorizes the regents to:

1. "Purchase, construct, equip, or improve, at any unit of the Montana university system, any of the following types of revenue-producing facilities: land, residence halls, dormitories . . . dining rooms and halls, restaurants, cafeterias . . . . student union buildings and facilities; and those other facilities specifically authorized by joint resolution of the legislative assembly."
2. "Rent housing facilities and provide food and other services to students, officers, guests and employees of the unit at rates that will ensure a reasonable net income over operating expenses and will provide for debt service and reserves . . ."
3. "Do all things necessary to plan for, and to propose financing including all necessary loan applications, for classroom, laboratory, library, bookstore and other instructional facilities, . . . stadiums, fieldhouses, armories, arenas, gymnasiums, swimming pools, and other facilities for athletic and military instruction . . ."

The law clearly limits the authority of the regents to planning and proposing financing for student learning facilities, as well as the selected facilities mentioned above. In contrast, the actual power to purchase, construct or equip facilities is limited to revenue-producing student facilities, such as dormitories and cafeterias, and those projects approved by the legislature.

In this respect the regents have not complied with the law. The regents have: 1) Purchased real estate to be used for academic purposes, 2) Renovated athletic facilities, 3) Paid legal fees, and 4) Made numerous other purchases not consistent with authority granted by the statutes. The regents have established their own policy which allows them to spend building fees on any campus building or facility. Board of Regents Item 223-001, dated July 10, 1972, and Item 2-016-R1073, dated October 19, 1973, authorize presidents of the six university units to "expend building fees to plan, construct, renovate, equip, maintain, or improve any campus buildings or facilities; . . ."

Because student fees generate revenue in excess of that required to repay the bonds, the building fee fund has a large cash surplus. In 1970, this surplus was over $413,000. An eleven-year summary of revenue, expenditures and ending cash balance from the 1960 U of M Building Fee Fund is presented as Appendix II.

The expenditure of surplus building fees has recently been a matter of controversy. A review of selected expenditures is presented below.

Legal Expenses

During 1973 five university officials were indicted in conjunction with alleged irregularities in the university's work study program. Two defendants were tried and acquitted and three were exonerated by motion of the United States Attorney to dismiss. During June, 1974, the university paid $45,832 to attorneys who defended the university officials. The fees were paid from the 1960 student building fee fund.

The regents authorized payments of this type in December, 1973. Board minutes indicate that the . . . Regents of the Montana university

system "consistent with applicable law, approve full indemnification of University system personnel for all expenses incident to any defense or litigation resulting from matters incident to their authorized employment." The board's attorney, in June, 1974, discussed the work study case specifically and concluded that payment of legal fees was both legal and proper.

The regents did not specify the source of funds for payment of legal expenses. Although the regents authorized the payment, the decision to use the student building fees was made at the university. Payment of legal fees with building fee funds contravenes the statutory provision concerning building fees. This type of expenditure bears no relationship to the primary purpose of student building fees.

The university reclassified the expenditure during January, 1975. The payment, which had been classified as an expense, is now classified as a loan to be repaid within five years. University officials have not determined how or from what source the loan repayment will be made.

Work Study Settlement

In connection with the work study investigation, the federal government filed suit to recover $344,932 of work study funds which were allegedly improperly used. On December 12, 1974, the University President and the United States Attorney for the State of Montana signed a compromise agreement. The agreement stated that "for and in consideration of the payment to the United States of America of One Hundred Seventy Five Thousand Dollars ($175,000), and other good and valuable consideration, the United States of America has released and discharged, . . . the State of Montana, the Regents of the University of Montana, and the University of Montana . . ." from any and all actions or claims arising from alleged deceitful obtaining or misapplication of federal

student financial aid. The payment was in settlement of the disputed claim for which the university expressly denied liability, and the settlement was not to be construed as an admission of liability by the university.

Payment of the settlement was from student building fees. The regents specifically authorized the payment from student building fees in board item 7-101-R1274. The regents also directed the university to reimburse the building fee fund as soon as possible, but within a period of not longer than five years.

As in the case of payment of legal fees from student building fees, the regents have no statutory authority to authorize this expenditure. This type of expenditure bears no relationship to the primary purpose of student building fees.

Real Estate and Improvements

In June, 1974, the university paid $115,000 for a house for the university president. The entire sum was paid from the student building fee fund. The purchase and use of student building fees was formally approved by the regents in July, 1974. An additional $50,000 was allocated to repair and refurnish the residence. At December 31, 1974, $5,000 had been expended and an additional $19,000 of labor and equipment had been ordered for this project.

Section 75-8503, R.C.M. 1947, authorizes the Board of Regents to purchase and rent housing facilities to officers and employees of the units, with rental income from housing sufficient to meet purchase and operating costs. However, the board has authorized free housing and utilities for all unit presidents. The purchase of the President's residence with student building fees is questionable under statutory provisions of section 75-8503, R.C.M. 1947. The residence is of

doubtful value to the students of the university, and generates no revenue to reimburse the student building fee fund. Although it may be a necessary university expenditure, there is no reason to require students to subsidize the purchase.

Since 1957 the university has purchased 27 pieces of real estate which adjoin the university. Some are required for the university's long range building program of residence halls and associated parking areas, and others provide parking for the current facilities. The purchase of these structures to provide eventual student facilities appears to be allowable by statute. Until they are eventually demolished to provide space for residence halls or parking, the university uses these buildings for academic office space. Student building fees are used to renovate these houses for use as office space. Providing funds for renovation is a legislative decision. Student building fees should not be used to improve academic facilities without legislative approval.

The university plans to use some of the land purchased to provide space for a performing arts center. The law clearly provides that the regents may plan and propose financing for such structures, but legislative approval is required for any expenditures.

Equipment Purchases

The university has made several equipment purchases using student building fees. An inserter costing $22,115, microfilm equipment costing $20,063 and a labeling machine costing $23,523 were purchased from student building fees for printing and clerical services. Student building fees totaling $9,000 were used to provide partial payment for an electron microscope costing $37,750.

The microscope will be used by the university's science department and formal course offerings are expected to be available in electron microscopy. The inserter, labeler, and microfilm equipment are available for use by all departments; however, the business office and the registrar's office are the most frequent users.

Small equipment purchases of approximately $2,500 were also made from student building fees. Dictaphone and tape units were purchased for the administrative vice-president's office, and an electronic calculator was purchased for the center for student development.

Although use of student building fees for these equipment purchases is not in accordance with applicable statutes, the regents approved purchasing the labeling and inserting machines and the microfilm equipment. The board item approving these expenditures states, ". . .the Board of Education of the State of Montana, ex-officio Regents of the Montana University System, authorizes the expenditure of surplus building fees as they accrue, by the University of Montana, at Missoula, Montana. . . ." A note to the board item states that the equipment would improve facilities as well as the services provided by the University of Montana and that it is unlikely that the equipment could be purchased unless the student building fees were used.

Awards

In April, 1974, the Regents authorized the expenditure of up to $2,000 per year of surplus building fees to fund competitive art awards to university students. The awards are for the production of art to enhance the university campus.

At January 31, 1975, $2,000 had been transferred to a special account for disbursement of the awards; however, no awards have yet been made.

Conclusion

The regents have expended surplus student building fees in a discretionary manner. Although the indentures underlying the use of student building fees authorize the regents to reserve the right to use surplus building funds for any lawful purpose of the university, the legislature has not granted this authority to the regents.

The law specifically grants the regents authority to spend building fees on certain revenue producing facilities, primarily dealing with student living areas. The law allows the regents to plan and propose financing for other facilities, but the law does not authorize them to expend funds for the facilities. In effect, the regents have authorized the niversity system to use student building fees to supplement legislative appropriations.

The cash surplus in the 1960 Student Building Fees fund will increase by approximately $160,000 per year i university enrollment does not change. As it presently exists, regent policy allows expenditure of this money for any lawful purpose of the university. During the next six years, over one million dollars in discretionary funds could be available to the university under this policy.

The issue of whether the legislature may regulate the expenditure of university funds has been a matter of controversy since the enactment of the Montana Constitution on July 1, 1973. An Attorney General Opinion, 36 Opinions of the Attorney General, No. 2, states that the legislature has constitutional authority to authorize line item revenue and expenditure for the university system. The full text of the opinion is presented in Appendix I. The responsibility to authorize university

expenditures rests with the legislature except where specifically delegated to the regents by the legislature. The regents may not use student building fees to supplement appropriations.

RECOMMENDATION

We recommend that the university comply with the provisions of Section 75-8503, R.C.M. 1947, by:

1. *Spending student building fees for the construction of revenue producing facilities only, and*
2. *Seeking legislative approval for all other expenditures of student building fees.*

CENTRAL PAYROLL SYSTEM

As is the case with all six units cf the Montana university system, the University of Montana payroll is processed and handled outside of the state central payroll system. One feature of the central payroll system is that all payroll warrants are prepared and issued by the State Auditor's Office on the basis of uniform time and attendance data furnished by state agencies. In the case of the university, employees are paid by state warrants which, in contrast to the central payroll system, are prepared and issued by the university itself on the basis of time and ttendance data collected and retained at the university level.

The payroll warrants prepared by the university resemble regular state payroll warrants in that they are drawn on the payroll revolving fund in the state treasury and are signed by the State Auditor. In preparing these warrants, the university uses a facsimile signature plate to imprint the State Auditor's and the University Business Manager's signatures. Periodically the university transfers money to the treasury payroll revolving fund by means of journal vouchers and university

checks. The journal vouchers are used to transfer appropriated moneys to the payroll revolving fund. University checks are used to supplement the payroll revolving fund with the amounts necessary to cover the payment of non-appropriated salaries.

Most university employees are paid through the above described system, but an insignificant number of salaries are paid through other means such as the university's contingent revolving account.

The chief accountant for the university stated that the rationale for the university's preparing its own payroll warrants is to ensure proper accounting distribution. Since the university processes its own warrants, payroll information is automatically posted by computer to the proper departmental records and reported in comparison with budget information. If the warrants were produced in the central payroll system, allocation of payroll costs to the various departments would have to be accomplished in a separate step by the university since it does not use SBAS as its primary accounting record.

The problem of obtaining proper accounting distribution is not insurmountable, however. The administrator of the central payroll division stated that the problems involved have been considered and central payroll is developing plans to accommodate university accounting requirements. The administrator stated that plans are being made to place a smaller unit of the university system on the central payroll system during calendar year 1975. Larger units will be accommodated when procedural problems have been detected and corrected.

The university's current payroll procedures are inadequate. The problems are so severe that immediate corrective action is necessary. Numerous problems associated with the university payroll system are discussed below.

Computer Processing

The university processes its payroll at its own computer facility. Although a new computer was installed in 1973, computer programs and systems analysis for payroll have not been updated. The programs used to process the university's payroll are run on a simulator. A simulator permits programs written for a first generation computer to be run on a third generation computer. Use of the simulator makes it difficult or impossible to change or update a program. Consequently, the payroll programs have remained ineffective and relatively unchanged for more than two years.

The inadequacy of the programs causes frequent problems in the payroll office. For example, even though payroll personnel know of employees who will be terminating during the month, the system precludes preparation of a valid payroll warrant after a cut-off date early in the month. A warrant for a full month's pay is written by the payroll system. This warrant must be "written back" to the university, and a special check must be prepared for the correct amount.

The present computer system does not have capabilities to detect abuses or test time and rate information for reasonableness. For example, we tested the university's computer payroll files to detect unreasonably high hourly rates of pay. More than one thousand transactions were listed, with pay rates as high as $1,869 per hour. One employee was listed as earning $200 per hour, with 3 hours worked during the month. These employees were not actually earning these high rates of pay. The employee earning $200 per hour was supposed to earn $600 for the pay period. To generate a payroll warrant for the correct amount, department officials substituted two factors ($200 per hour; 3 hours worked) which produced the correct amount.

Similar tests disclosed employees who were listed as working 975 hours per month at $.10 per hour. This data resulted from improper use of time and rate payroll input information. Department personnel preparing payroll data first calculated gross pay by hand, then input into the payroll system the time and rate factors which would produce the hand calculated gross pay. While such figures may produce a warrant for the correct amount, no meaningful management information or payroll tests can be developed from this data. Additionally, department personnel have been making calculations by hand when this work should have been performed by the computer.

Control of the Facsimile Signature Plate

Another problem relating to the university's handling of the payroll is inadequate control of the facsimile signature plate used to sign warrants. University personnel maintain a control log to record the number of times the signature facsimile machine is used; however, during February, 1973, the control log lists 3086 warrants signed by the machine. The gross earnings report for the same period lists 3069 employees and the payroll register lists 3058 employees receiving warrants that month. During February, 1973, up to 28 warrants could have been signed with the signature facsimile plate without the knowledge of the State Auditor or the University Business Manager. Tests made during other months produced similar results. There was no record of reconciliations prepared by university officials, and we were unable to determine the reasons for the discrepancies.

Payroll Processed Before the Fact

As discussed earlier, correction of payroll errors is difficult because computer programming and systems analysis have not been updated. This problem is compounded since the payroll for many university employees

is processed in advance of their actual service. The payroll office prepares salary warrants for the entire month on the assumption that the employee will actually work during that time. In those instances where an employee takes leave without pay, his pay rate is changed, or other changes affect his pay, the adjustment must be made in the following month. The university payroll supervisor explained to us that corrective work required because of these errors requires a considerable amount of time each month.

Salary payments should be based upon accurate and factual data rather than assumptions made before the fact. This is customarily accomplished by means of a time lag from the end of the payroll period to the time of payroll processing. This problem was discussed during our 1970 audit of the university, and it has not been corrected.

Data Processing Priorities

The university's difficulties with payroll stem largely from administrative decisions which established data processing priorities. One analyst and three programmers serve both the academic and administrative divisions of the university, and most frequently, academic personnel have priority. Administrative personnel are given limited computer time and access to computer hardware. For example, almost 40 on-line, time-sharing computer terminals are located at various places throughout the university for use by academic personnel. The business office does not have a single terminal. We were informed by data processing personnel that it is expected to be at least one year before any changes can be made to the payroll system.

University officials should determine if university resources are adequate to correct the serious problems in the payroll function. If

the university can take corrective measures, they should begin immediately. If the problems cannot be corrected with resources available at the university, university officials should immediately begin to work toward placing the university on the central payroll system.

RECOMMENDATION

We recommend that the university act immediately to correct problems in its payroll system or work with the Department of Administration and State Auditor in placing the payroll for all university employees on the central payroll system.

Personnel Department

In addition to the problems discussed in the preceding paragraphs, we noted serious organizational and internal control problems in the university payroll and personnel offices. Most serious is the lack of coordination between the two offices. The current organization chart shows that the university's personnel office is under the authority of the academic vice-president while the payroll department is under the authority of the university's business manager. Besides being organizationally separated, the departments are at opposite ends of the university campus.

When properly administered, a personnel department performs functions which are an integral part of the payroll system and acts as a check against possible abuses of the system. Our review disclosed that there is, at best, poor coordination between the personnel and payroll departments, and that the personnel department fails to effectively fulfill certain key responsibilities.

Two important activities normally associated with a personnel department are recruiting and screening applicants and maintaining

employee personnel records. The personnel department does not perform either job effectively. Many university employees are hired directly by the departments for which they work, and there is no coordination of hiring with the personnel department. A supervisor or department head may hire an employee, submit a data card which initiates a payroll file at data processing, submit time cards, and request that payroll warrants be mailed to any address. The personnel and payroll departments have no assurance that employees who receive state warrants actually exist.

On a test basis we performed a payroll distribution for university employees, requiring that they present identification and sign for their payroll warrants. Although the test distribution disclosed no discrepancies, it is possible that non-existent employees have been placed on the payroll. This problem will continue to exist, even using the state payroll system, until the university implements proper internal control procedures.

The university personnel department should require an interview of all employees when they are hired and when employees retire or are terminated. If desired, this interview could consist primarily of having the employee complete payroll withholding forms or a termination notice, as applicable. Decisions regarding selection and termination of employees are the responsibility of the employing department. However, the personnel department should establish the data processing file and notify the payroll department of additions, terminations and other pay changes, independently of the department hiring the employee. By separating the functions mentioned above and requiring an interview from all employees, the university can gain assurance that only authorized employees receive payroll warrants.

RECOMMENDATION

We recommend that the university establish procedures wherein:

1. *The personnel office staff meet with newly hired and terminating employees.*
2. *Employment and pay change authorizations are initiated in the personnel department rather than in the department which hired the employee.*

Personnel Files

A second primary function of the personnel department is to maintain a complete personnel record for each non-academic employee and all records required to administer staff benefits and ensure proper pay and withholdings for each academic employee. Other information concerning academic personnel, such as publications or credentials is normally maintained in the academic vice-president's office.

To test payroll records and transactions, we randomly selected 119 university employees who received pay in fiscal year 1972-73. The personnel department was unable to locate files for 27 of these employees. Four other employees had personnel files, but the files did not contain authorization for employment by either the department or by the personnel office. The 92 personnel files located for our test were in various offices on campus and some were maintained independently of the personnel office. Centralized control over all personnel files would promote efficient management and compliance with the Fair Labor Standards Act, the Equal Employment Opportunity Act and state and federal tax regulations.

RECOMMENDATION

We recommend that the university centralize the maintenance of personnel files in one office under the control of the university personnel director.

Payroll Office

Several internal control problems exist in the university payroll office. Payroll office employees are not advised of information critical to effective operation of the office. Payroll deduction data for health and term insurance, bonds, traffic fines and credit union payments are transmitted directly from the various departments to data processing. The payroll office is not informed of these deductions.

Information submitted by the departments frequently contains errors which the payroll office must correct. A significant portion of employee time is spent correcting errors in deductions over which the payroll office has no control.

Since the payroll office must bear the responsibility for producing a proper payroll, payroll personnel should have control over input of items which affect the payroll.

RECOMMENDATION

We recommend that all items affecting payroll be processed through the university payroll office.

Termination Pay

The former university president retired effective June 30, 1974. His terminal pay included accrued leave benefits of 180 days, amounting to $22,968. Payment of this amount was made in June, July and August of 1974, as authorized in Board of Regents item 4-101-R0474, dated April 8, 1974.

The former president's termination pay was based upon a 1966 Board of Regents policy which granted eighth quarter leave privileges for each two years worked. Under this policy, the president accumulated 90 days of leave at the end of each two-year period. At June 30, 1974, the president had accumulated 308-1/2 days of leave. A 1973 Board of Regents item limited accumulations of leave based upon the eighth quarter leave privilege to 180 days, which was the amount that the president was compensated for upon termination.

The contract for employment of the former president did not specify the leave benefits included in the contract. The contract specified only the annual salary and perquisites (house, car) received by the president. Contracts with academic personnel should specify all benefits to be received. Since the president's leave benefits differed from those received by other state employees, the contract should specify the nature of the benefits.

RECOMMENDATION

We recommend that the Board of Regents formulate a uniform policy governing benefits such as termination pay for academic employees and specify such benefits in academic contracts.

PLANT, PROPERTY, AND EQUIPMENT

The university is a large business in terms of its operations and its physical assets. On June 30, 1973, the university accounting records reflected fixed assets of more than $55 million.

The university balance sheet lists the following items:

UNIVERSITY OF MONTANA

INVESTMENT IN PLANT

June 30, 1973

Land	$ 2.2 million
Buildings	38.3 million
Equipment	11.1 million
Construction in Progress	3.7 million
Total	$55.3 million

Our 1970 audit report on the university made numerous recommendations in this area, including tagging of assets, annual physical inventory and controls to ensure proper recording and utilization of assets. At June 30, 1973, none of these recommendations had been implemented.

Controls and Procedures

Our review of controls and procedures over plant, property, and equipment for fiscal year 1972-73 revealed numerous weaknesses in internal control and accounting procedures. Additionally, detailed accounting records were inadequate.

Construction-in-progress accounting records are maintained by both the university and the Architecture and Engineering Bureau of the Department of Administration. Building construction is supervised by the Architecture and Engineering Bureau, and official construction accounting records are maintained by the Bureau. Annually, and on request, reports are made to the university to allow recording of construction in progress activity on university accounting records. The university should discontinue maintaining its memorandum accounting records and instead rely on records maintained by the Architecture and Engineering Bureau.

A complete physical inventory of university assets has never been made, although tests have occasionally been made on a fragmented basis.

University officials advised us that they had neither the time nor personnel to perform such an inventory. Attempts were made in the business office to ensure that new assets were recorded and that assets disposed of were deleted from accounting records; however, the procedures used provided no basis for obtaining accurate records. No procedures existed for university employees to notify the business office when assets were disposed of or to ensure that the salvage value was received from unneeded equipment and waste materials.

Even the best controls and procedures, however, do not reduce the need for a periodic physical inventory to verify the accuracy of the accounting records. The university would receive numerous benefits from a periodic physical inventory, such as:

--Disclosing existence of misused, obsolete, or unused assets.

--Ensuring that full salvage or scrap value is received when assets are disposed of.

--Creating reliable records for insurance purposes so that maximum insurance recovery would be possible after fire or theft.

--Significantly increase the university's indirect cost rate for sponsored programs.

A basic principle of sound property management requires that responsibility for physical control and accounting control of assets be assigned to specific individuals to ensure personal accountability. Specific employees in each department should be responsible for assets in their control. Accounting control should be separated from the physical responsibility and should be centralized in one office.

Due to deficiencies in the property accounting records and the university's failure to take a physical inventory, we disclaim an opinion

as to the reasonableness of the Statement of Changes in Fund Balances for Net Investment in Plant, the Statement of Changes in Fund Balances for Unexpended Plant Funds, and investment in plant as stated in the balance sheet.

New Property Procedures

The former university president took note of problems in plant, property, and equipment in a May, 1974, memo to deans, department heads, and administrators. He stated that ". . . the University has made, at the best, only fragmented physical inventories of equipment. Consequently, our inventory records and related accounting balances are not valid. . . ." At the president's direction, business office personnel have recently developed a property control manual and are developing computerized property control procedures. The new system will be designed to maintain computerized records for certain equipment purchases, and it could offer a potential resolution of many of the problem areas in accounting for assets.

However, the new property control system, as presently contemplated, contains the following weaknesses which will make it virtually useless:

1. The new procedures fail to require the recording of purchases of office equipment (desks, filing cabinets, chairs). Instead, the physical plant department is responsible for the physical control of these items and must maintain manual records for them. This separates the accounting responsibility from accounting department control and places custodial and accounting responsibility in the same department.
2. The new system will not record the cost of construction of buildings or the purchase of land. Presently, these records are maintained by hand, and they contain frequent clerical

errors. Business office personnel explained that clerical errors must be expected in hand-maintained records. Under the new procedures, records will continue to be maintained by hand.

3. University personnel have no plans to take an annual physical inventory. The plant funds accountant stated that an inventory will probably be taken every three years, or when department heads are replaced. During the three years from June 30, 1970, to June 30, 1973, the university's investment in plant increased from $43.1 million to $55.3 million. The magnitude of this increase justifies inventories on a more regular basis. Failure to take inventories of fixed assets will result in computerized records which are unreliable and unverified. The university should conduct a physical inventory at least once each biennium.

Because property accounting records are inadequate, the university will lose reimbursement for fixed assets used on federal government grant projects. The Department of Health, Education and Welfare's most recent audit report issued on indirect cost rates was for fiscal year 1971-72. The report, which was released in February, 1975, stated that the entire university equipment use allowance was disallowed when computing the indirect cost rate. The university's recovery of indirect costs would significantly increase if regular physical inventories were taken.

RECOMMENDATION

We recommend that the university:

1. *Rely on construction in progress accounting records maintained by the Architecture and Engineering Bureau and discontinue the maintenance of duplicate records at the university.*

2. *Assign responsibility for physical and accounting control of fixed assets to specific positions.*

3. *Conduct complete physical inventories at least every two years.*

4. *Provide control accounts for land, buildings, and office equipment in the revised property accounting system.*

AGENCY ACCOUNTS

The university receives and expends non-university money on behalf of other groups or individuals, such as associated students, student clubs, and fraternities. The money belongs to the various groups; however, the university should report these fund balances in the financial statements.

The university balance sheet presents the following agency funds:

	June 30, 1972	June 30, 1973
Cash	$189,339	$200,627
Due from State Treasurer - Revolving Fund	16,699	10,352
Investments	25,198	70,996
Total Agency Fund Assets	$231,236	$281,975

The balances presented are understated by approximately $900,000 at June 30, 1972, and $600,000 at June 30, 1973. The university acts as both custodian and fiscal agent for all alumni and certain foundation and bookstore money, yet the financial statements omitted cash balances of the University of Montana Foundation and the Associated Students' Store and cash and investments of the Alumni Association. Since the university acts as custodian and fiscal agent for the assets of these organizations, these assets should be recorded as agency funds. Due to

the exclusion in the financial statements of revenue given to the foundation and the exclusion of foundation assets from agency accounts, the foundation's relationship to the university is not disclosed.

The reason for exclusion of alumni, bookstore and foundation assets is not clear. The university accounting supervisor stated that foundation activities were removed entirely from the university statements in 1970. In order to assure a consistent presentation of accounts, whether right or wrong, the Alumni Association and Associated Students' Store were also removed from the financial statements.

Major guidelines for college and university accounting procedures clearly state that agency funds are those for which the university acts as custodian or fiscal agent for another individual or group. While the university should not present transactions relating to agency funds in its financial statements, account balances must be shown.

The agency account fund balances and statement of changes in fund balances are misstated to the extent of the omission of the assets and fund balances of the University of Montana Foundation, Alumni Association, and Associated Students' Store.

RECOMMENDATION

We recommend that the university include in the agency funds all assets for which the university acts as custodian or fiscal agent.

FEE WAIVERS

Students registering for classes at the University of Montana pay a variety of fees each quarter. During fiscal year 1972-73, Montana residents paid $157.00 per quarter if enrolled full-time. Non-resident

students paid an additional $282.50 per quarter. In addition, special fees are required for certain classes, laboratory materials, and vehicle registration. Fees charged for full-time enrollment are depicted in the table below.

UNIVERSITY OF MONTANA

QUARTERLY STUDENT FEES

FISCAL YEAR 1972-73

Fee	Amount Per Quarter
Registration Fee	$ 15.00
Incidental Fee	75.00
Buildings Fee	20.00
Student Union Fee	10.00
University Center Operations Fee	9.00
Student Activities Fee (Optional to graduate students)	15.00
Health Service	13.00
Total Fees for Residents	$157.00
Non-residents of Montana add:	
Non-resident Fee	260.00
Non-resident Buildings Fee	22.50
	$282.50
Total Fees for Non-residents	$439.50

Collection of registration, incidental and non-resident fees during fiscal year 1972-73 totalled $3,373,546. During the same period, the university waived registration, incidental and non-resident fees of $564,255. An additional $60,842 of other student fees were also waived. Exhibit C lists all fee waivers granted by the university during fiscal year 1972-73.

Statutory Authority

During fiscal year 1972-73 the university waived fees in 19 different categories. Only 5 of these categories are authorized by statute. The remaining categories, while authorized by the Board of Regents, are not authorized by statute.

Our 1970 audit report discussed this problem and recommended that the university seek legislation to provide statutory authority for the waiver or reduction of fees where such waivers would be in the best interest of the university or the state. The university agreed with this recommendation; however, no steps were taken to correct the problem. During fiscal year 1972-73, the university waived over $245,800 in registration and incidental fees without statutory authority. The result was a loss of revenue which would have been available to offset operating expenses.

The legislature has granted authority for the following fee waivers:

Indian Scholarships	$ 46,629
Inmate of Custodial Institutions	720
War Orphans	990
Non-resident Fee	133,292
Montana Honorable Discharge	7,871
Total	$189,502

In addition, certain fees were waived for Air Force officers participating in the Air Force Institute of Technology (AFIT) program; however, the cost of this program is recovered through contract with the Air Force. All other fees waived by the university are waived without the approval of the legislature.

The statute regarding non-resident fee waivers is interpreted differently at the University of Montana than at other university system units. The university multiplies the number of fee waivers allowed by statute times the maximum dollar value of a waiver and distributes this dollar value to students, normally awarding 50 percent or 77 percent waivers. Other university system units award only full fee waivers up to the statutory number of waivers allowed. The university's interpretation of the statute, therefore, allows it to waive fees for more students, proportionately, than other university system units are allowed.

Each unit of the university system should award fee waivers in a uniform manner. The university should seek clarification of the Board of Regents' policy and determine whether it is proper to award waivers based upon dollar value rather than number of waivers.

The university agreed in response to our prior audit report to seek legislative approval for fee waivers. However, Montana's new Constitution has raised questions of whether the legislature or the Board of Regents has authority to waive fees. Because this issue raises constitutional questions, we have made no recommendations relating to fee waivers in this report. Instead, we are requesting an Attorney General's opinion on this subject.

ACCOUNTING PROCEDURES

The university's financial transactions are recorded in two accounting systems, the Statewide Budgeting and Accounting System (SBAS) and the university's own accounting system. The university's accounting system is generally intended to conform with the fund accounting system recommended in the American Council on Education's manual, College and University Business Administration, 1974 (CUBA). Based on this publication, as well as generally accepted accounting principles and practices, there are a number of areas where improvements in the university's accounting procedures are warranted.

Accrual of Expenditures

The purpose of an expenditure accrual is to set aside money to pay a liability incurred in one fiscal year but paid in another and, in so doing, match expenditures with the proper fiscal period. The term encumbrance is used in governmental accounting to denote an anticipated expenditure, however, not necessarily an expenditure for which a liability

has been incurred. At June 30, 1973, the Statewide Budgeting and Accounting System required the university to accrue encumbrances as well as actual liabilities. However, encumbrances should not be included in the balance sheet as liabilities. Instead, encumbrances should be presented as a footnote to the financial statements.

The University of Montana financial statements for the year ending June 30, 1973, present as a liability $259,909 of educational and general funds. Of this amount, only approximately $90,600 represents actual liabilities. The remaining approximately $169,300 is encumbered money, resulting in a significant overstatement of liabilities. However, the university failed to accrue at least $79,710 of additional liabilities. Included in this amount are a $1,400 phone bill, an $8,800 power bill, and motor pool charges of $8,600. The net effect is an overstatement of education and general fund liabilities by approximately $89,600.

Accounts payable from auxiliary enterprise funds are reported at $153,933. This figure is understated by at least $43,808 in unrecorded liabilities at year-end, including an $11,700 phone bill, a $6,300 power bill, and motor pool charges of $7,200.

The multiple errors on accrual of expenditures result in a significant misstatement of the university's financial statements. Failure to disclose the distinction between liabilities and encumbrances, which are not true liabilities, results in the presentation of misleading information.

RECOMMENDATION

We recommend that the university:

1. *Develop procedures to ensure that all year-end liabilities are recorded.*
2. *Properly differentiate between encumbrances and accounts payable in the financial statements.*

Financial Statement Preparation

University officials do not use a trial balance when preparing financial statements. Standard accounting procedures require the use of a working trial balance prepared from the general ledger. This facilitates consolidating similar accounts and making proper adjustments. The university's failure to use a trial balance has resulted in numerous errors in the financial statements. Examples of errors are:

--An offsetting error of $12,968 between two accounts in plant funds for debt retirement.

--An error of $263,959 in investments and cash in plant funds for debt retirement. Year-end payments for debt service and interest were not reflected in the financial statements.

--Interfund balances with no offsetting entries. For example, plant funds for debt retirement list an asset "Due from auxiliary enterprises - $5,000." However, auxiliary enterprises show no liability of $5,000 to debt retirement funds.

--The general ledger student fee revenue and financial statement student fee revenue differ. University personnel could not explain the difference since no working papers were prepared.

University journal and closing entries are not adequately documented. Standard adjusting and closing procedures require documented closing and adjusting entries as well as a working trial balance. Most university journal entries contain no explanation. Failure to document entries and prepare working papers considerably increases the time and expense incurred when business office personnel must research transactions. Of course, such lack of documentation also increases the time and expense required to audit the university's financial statements.

In addition to the deficiencies outlined above, the university's printed financial statements contain clerical errors which should have been detected during management review. For example, the comparative balance sheet lists investments of $1,977 under student aid during fiscal year 1972-73. In the prior year, the same amount was incorrectly listed as an account receivable. The ending balance for current restricted funds on the university balance sheet is $53,463. The statement of changes in fund balance shows an ending balance of $44,112, a difference of $9,351. Both are primary financial statements.

Financial Statements

The university's June 30, 1973, financial statements do not conform to the AICPA guide for college and university accounting, the JAG report or CUBA in several respects. Although the AICPA guide is effective for fiscal years beginning after June 30, 1973, it was adopted by the Board of Regents prior to the time the university's financial statements were prepared. The following informational items, which were omitted from the primary financial statements, should be included in future financial reports if disclosure is to be considered adequate:

1. Deposits should be recorded as liabilities of the appropriate fund. These deposits were improperly included in the agency funds.
2. The market value of investments should be disclosed.
3. A valuation reserve for receivables should be established and disclosed.
4. A detailed description of debt should be presented, i.e., (1) interest rate, (2) bondholder, (3) installment due dates and amounts, and (4) reserve requirements.

5. The financial report should disclose whether or not the school is in compliance with bond indentures. Pledged revenues should be fully disclosed.
6. Encumbrances should be properly identified in notes to financial statements and differentiated from accounts payable.
7. The Statement of Changes in Fund Balance for Endowments should include <u>all</u> additions and deductions. Presently, the schedule shows only the net change.
8. Fee waiver income and expense should be recognized and disclosed in the statement of current funds revenues, expenditures and other changes.
9. Notes to the financial statements should include a description of accounting policies, such as:
   a) Method and timing of recognizing income and expense.
   b) Method of asset valuation.
   c) Method of costing inventories and a statement as to whether inventories are presented at the lower of cost or market value.
10. Retirement plans should be described and the university's commitment to each should be disclosed.
11. Interest-earning deposits should be disclosed instead of being reported as cash.
12. Current funds revenue should be reported by source rather than function, such as scholarships and prizes.
13. Current funds expenditures should be reported in accordance with functional categories described in the JAG report.

14. Daily transactions for agency accounts such as student activity funds are not part of the school's operations and should not be reported as university transactions in the financial statements. Balances in agency asset accounts should be identified as agency assets and shown in the university financial statements.

In addition to these deficiencies, the Statement of Expendable Plant Funds from Bond Proceeds--Field House and Health Service, is redundant and confusing since all information contained in it duplicates transactions reported in other statements.

RECOMMENDATION

We recommend that the university:

1. *Revise its accounting and reporting practices in accordance with guidelines prescribed by College and University Business Administration, 1974, the AICPA guide for Audits of Colleges and Universities, and the Report of the Joint Accounting Group.*
2. *Adopt sound procedures to develop financial statements, including the use of trial balances and documented adjusting and closing entries.*

Control Over Cash Disbursements

Internal control over cash disbursements is necessary to assure that cash is used only for authorized purposes and that only authorized payments are made.

University disbursements have two sources, termed "state" and "local" by university personnel. "State" funds are those in the state treasury which are appropriated by the legislature, while "local" moneys

are deposited in local bank accounts and are not appropriated. "State" funds are paid by the state treasurer after an approved claim is submitted. "Local" claims are paid at the university with checks written by the university computer on local banks.

Internal control weaknesses in payment procedures for "state" and "local" claims are as follows:

--Signature cards were not provided to business office employees who review claims before payment. These cards should display sample signatures of university employees who may authorize expenditures. Signature cards were provided in September, 1974; however, they are not complete, and employees do not use them. It appears that almost anyone at the university could authorize expenditures for payment.

--The university business manager delegates check-signing authority, including his own. Since the university president is directly responsible for university expenditures, authorized check signers should be approved by him.

--The university's checks require only one signature regardless of the amount of the expenditure. Controls would be strengthened by requiring two signatures for high dollar payments.

--Several former employees who have not worked at the university for many years re listed as authorized check signers by three local banks. Checks signed by these persons could be cashed if presented to the banks.

--The checking account is not promptly reconciled. At one point during our review, bank statements for the prior six months had not been reconciled. Failure to perform prompt reconciliation enhances the opportunity for persons to conceal misappropriations.

--Stale dated checks are not promptly written off. At one time during fiscal year 1972-73, nearly $2,000 of outstanding checks were not written off after being outstanding for more than two years. No stop payments were issued. As a practical matter, the checks cannot be cashed after six months, and should be written off at the end of that period.

--Stop payments are not issued for lost checks. A check for $6,742 written in September, 1971, was lost by the vendor. A second check was issued in 1972 and no stop payment was issued on the first check.

RECOMMENDATION

We recommend that the university improve control over cash disbursements by correcting internal control weaknesses.

Inventory

Accounting controls and procedures over chemistry stores' and printing and clerical services' inventory are inadequate. University business office personnel accept inventory balances from auxiliary enterprises with no assurance that they are accurate. The result is a possible misstatement of both inventory balances and costs of sales.

Although a diligent effort was made by personnel who conducted the physical inventories, lack of supervision by business office personnel and inadequate review of procedures made the results unreliable.

Chemistry stores, for example, maintains computerized perpetual inventory records. No authorization is required for any of five individuals to add to, deduct from, or adjust the inventory records. Two of those individuals may also order, receive, and authorize payment for inventory stock.

Basic internal control procedures require that custodial and accounting responsibilities be separated. Without such a separation, inventory records cannot be relied upon and inventory stocks may be subject to theft or unauthorized use.

In addition to the lack of internal control, inventory records contain numerous clerical errors which remained uncorrected in the financial statements. The computer printout lists 28 pounds of a chemical in stores. The item sells for $28 for 8 pints. The computer was not programmed to convert pounds to pints, so no value was assigned to this item. Another item had a listed value too large to be printed in the

space provided; consequently, cost of the item was deleted. These and numerous other errors remain uncorrected in the inventory totals.

The business office did not supervise the taking of inventory. Business office accounting personnel did not offer guidelines or procedures for taking inventory or proper costing methods. For example, all chemistry stocks on hand at year-end were costed at the most recent invoice price. This is not a generally accepted costing method and it is not the method which business office personnel authorized.

Certain items stocked for resale by chemistry stores are not included in inventory figures and are not listed on inventory records. Chemistry store personnel stated that since costs had been recovered on some items, the remaining items had no cost for inventory purposes. The failure to list the items weakens control over them.

Procedures for costing inventories were inconsistent. While chemistry stores removed obsolete and unsalable items from inventory, printing and clerical services included obsolete items in inventory.

In order to arrive at a proper figure for inventory on hand at year-end and cost of sales for the year, proper purchase and sales cut-off must exist at the end of the period. The university business office, however, made no attempt to achieve a proper cut-off or inform the departments involved of the need for a proper cut-off.

The numerous problem areas in inventory controls and procedures relate primarily to the university business office. Personnel in the various departments were largely unaware of the need for proper accounting and internal control procedures. It is the responsibility of the university business office to supervise the development of financial statement information. This responsibility has been neglected.

RECOMMENDATION

We recommend that the university develop procedures to ensure that inventory records produce accurate information by:

1. *Supervising the taking of physical inventory.*
2. *Providing guidelines for costing inventory in a uniform manner.*
3. *Ensuring proper cut-off procedures.*
4. *Testing the accuracy of inventory records and making necessary corrections.*

TRAVEL

By law, state employees traveling on state business receive a per diem payment and mileage if a personal vehicle is used. Our review of travel claims paid by the university indicates that a substantial portion of claims paid contain a significant number of errors. An initial review of 20 travel vouchers for fiscal year 1972-73 revealed thirteen with errors. A later limited review of claims for fiscal year 1973-74 and the current year also indicates a consistently high error rate.

Examples of errors noted are:

--Per diem was incorrectly computed. Employees whose per diem was underpaid computed per diem on an hourly basis rather than a quarterly basis as required by law. Employees whose per diem was overpaid claimed per diem for one-day trips when the applicable law allows money for only one meal. Other claims had mathematical errors.

--Departure and arrival times were omitted or incomplete. One employee submitted a mileage claim for three months on one travel voucher. It could not be determined during which months travel occurred.

--Miscellaneous reimbursement, paid in addition to per diem, was undocumented. One employee was reimbursed for tips, which violates Department of Administration regulations, MAM 1-1000.01, since tips are included in per diem payments.

--Non-travel claims were paid with travel vouchers and were recorded as travel expense. A $300 tuition fee for a training school was paid from travel funds and recorded as an out-of-state travel expenditure. The university should ensure that such expenditures are properly classified.

The high error rate found in travel claims indicates that university employees who travel are unaware of state travel regulations. To attempt to correct this situation, the university added to its business procedures manual a travel policy section which explains in detail the procedures for travel reimbursement.

If employees who travel were required to review the travel policy, errors would be significantly reduced. In addition, a review of travel claims by supervisory personnel in the various departments could detect most errors before claims are submitted to the business office. Presently, due to the volume of travel claims, the one clerk assigned to this area reviews only one-half of all travel claims submitted.

RECOMMENDATION

We recommend that university administrative officials institute procedures to ensure an adequate review of travel claims for compliance with state laws and regulations.

ORGANIZATION OF ACCOUNTING SERVICES

The university's business office has operated without a controller for approximately two years. During this time, the controller's responsibilities have, to the extent practicable, been divided among the business manager, the chief accountant, and the treasurer. This division of duties, among persons who already had full-time responsibilities, has resulted in a lack of strong accounting leadership and a lack of adequate coordination and supervision of accounting services and personnel.

Strong leadership is needed to manage the accounting services of an organization as large and complex as the university. At the present time the accounting function seems to be "running itself" without obvious direction from anyone. Internal accounting controls over university expenditures are so weak that it seems no one has been coordinating employee functions in the accounting area.

We found no one individual who could explain the entire accounting system to us. This in itself represents a significant weakness in management controls.

The accounting function at the university requires more management attention, and perhaps a larger portion of the university's budget than it has received in the past. However, before fair assessment can be made of the need for a larger or more sophisticated accounting staff, a controller must be hired to establish order in the organization of the business office. This person must be authorized to make necessary changes in accounting personnel and in the duties of current personnel.

University personnel advised us that they have hired a controller who will begin work at the university on June 16, 1975. Due to the importance of a controller in a business operation as large as that of the university, this position should have been staffed more promptly. Because the controller's position has been filled, no recommendation is warranted.

STATUS OF IMPLEMENTATION OF 1970 AUDIT RECOMMENDATIONS

The university has not implemented some of the major recommendations contained in our 1970 audit report. Rather than repeat many of the same recommendations, we have summarized below the most important of those not implemented.

Many recommendations dealt with the university's relationship with the State of Montana and with the University of Montana Foundation. Failure to implement these recommendations has resulted in financial statements which are distorted; unreported revenue used by the university for discretionary purposes; incomplete reporting to the legislature; management inefficiency; and violations of state law.

DEPOSIT OF MONEYS IN THE STATE TREASURY

In our 1970 audit report, we recommended that the university deposit all federal money, including that received from grants, in the state treasury. The university continued to deposit millions of dollars in grants from federal and private sources in local bank accounts.

We also recommended that the university deposit student fees in the state treasury as soon as possible after collection. In 1970, we noted that the delay in deposit with the state treasurer ranged between 13 and 45 days. Rather than comply with this recommendation and with state law, the university now retains these fees for 26 to 56 days. Between fall quarter of 1972 and fall quarter of 1974, the university retained an average of $1,031,000 in student fees for an average of 43 days. Interest earned on the university's investment of these fees exceeded $58,000. The university failed to deposit the interest earnings in the state treasury.

Numerous other portions of our 1970 report dealt with deposit of cash and investments in the state treasury. In most cases, the university has failed to comply. Legislative control over the university became an issue in July, 1972, with the adoption of Montana's new Constitution. This issue has been clarified recently as discussed on page 5 of this report.

THE UNIVERSITY OF MONTANA FOUNDATION

The university's relationship to the foundation was discussed in our 1970 report, as well as on page 23 of this report. Recommendations dealing with the foundation have not been complied with.

The most significant reasons for the university's financial statements failing to fairly present financial position or the results of its operations stems from dealings with the foundation. Our 1970 report suggested possible solutions for this problem, including depositing all moneys received from grants in the state treasury. Compliance with this recommendation would have substantially enhanced the usefulness of the information contained in the fiscal year 1972-73 financial statements.

OTHER RECOMMENDATIONS

Many accounting and internal control deficiencies noted during our 1970 audit continue to trouble the university. There continues to be a delay in the payment of invoices, sometimes resulting in lost purchase discounts. The university is using the contingent revolving account in substantially the same manner as in 1970. The account is used to pay moving expenses, honorariums, non-emergency payroll and other expenditures contrary to established guidelines. University officials believe that a controller will provide guidance and leadership in these areas and a remedy to these problems.

We recommended in 1970 that the university work in cooperation with other university units to establish a more uniform accounting system. Since then, the university has done nothing to remedy the lack of uniformity with other units of the university system.

In each instance described above, and in other areas discussed in our 1970 audit report, we noted continuing deficiencies. The university should review and implement the recommendations contained in our 1970 audit report.

FINAL COMMENTS

We have reviewed the comments and recommendations contained in this report with the President of the University of Montana and the Commissioner of Higher Education. The full text of the university's response is included on page 116 of this report.

This is one of seven audit reports on the Montana university system units and the Office of the Commissioner of Higher Education. As is the case with audit reports previously published, some findings and recommendations in the report have system-wide implications. Implementation of some recommendations should be initiated by the Board of Regents. Other recommendations require the university's working in cooperation with various state agencies or with University of Montana Foundation officers and personnel. University officials have indicated that they will work in cooperation with the Board of Regents and other state agencies to resolve these issues.

We wish to express our appreciation to university, foundation, and commissioner's office employees for their cooperation.

FINANCIAL STATEMENTS

EXHIBIT A

BALANCE SHEET
JUNE 30, 1973
WITH COMPARATIVE FIGURES AT JUNE 30, 1972

ASSETS

	Current Year	Prior Year Unaudited
Current Funds:		
Unrestricted:		
Educational and General Cash	$ 331,037.83	$ 282,689.21
Federal Funds with State Treasurer	39,456.64	238,806.84
State Appropriation	192,799.92	572,109.06
Total Educational and General Fund Assets	563,294.39	1,093,605.11
Auxiliary Enterprises		
Cash	595,387.11	1,001,292.18
Accounts Receivable	147,984.92	114,155.87
Inventories	440,910.69	393,296.78
Total Auxiliary Funds Assets	1,184,282.72	1,508,744.83
Total Unrestricted Funds Assets	1,747,577.11	2,602,349.94

LIABILITIES AND FUND BALANCES

	Current Year	Prior Year Unaudited
Current Funds:		
Unrestricted:		
Educational and General Deferred Revenue	$ 206,630.50	$ 224,140.70
Encumbrances	259,908.84	311,265.55
State Funds to Revert	29.42	182.33
Fund Balance, per Schedule A-1	96,725.63	558,016.53
Total Educational and General Liabilities and Fund Balances	563,294.39	1,093,605.11
Auxiliary Enterprises		
Deposits and Deferred Revenue	319,203.98	268,242.93
Due to U of M Foundation		13,000.00
Due to Debt Retirement Funds		2,342.96
Encumbrances	153,933.41	87,520.20
Funds Balance, per Schedule A-1	711,145.33	1,137,638.74
Total Auxiliary Liabilities and Funds Balances	1,184,282.72	1,508,744.83
Total Unrestricted Liabilities and Funds Balances	1,747,577.11	2,602,349.94

EXHIBIT A

Current Funds:		
Restricted:		
Educational and General		
Cash	7,196,26	12,095.38
On Deposit-State Treasurer	3,812.51	2,170.42
Total Educational and General Fund Assets	11,008.77	14,265.80
Student Aid		
Cash	32,027.47	163,540.69
On Deposit-State Treasurer	6,225.05	5,708.36
Investments	1,976.80	
Accounts Receivable	2,224.74	1,976.80
Scholarship Donors		16,054.31
Off-Campus Agencies		3,167.96
Total Student Aid Funds Assets	42,454.06	190,448.12
Total Restricted Funds Assets	53,462.83	204,713.92
Total Current Funds Assets	$1,801,039.94	$2,807,063.86

Current Funds:		
Restricted:		
Educational and General, per Schedule A-2	11,008.77	14,265.80
Total Educational and General Fund Balances	11,008.77	14,265.80
Student Aid		
Accrued Salaries Payable	9,350.64	
Student Aid Funds, per Schedule A-2	33,103.42	190,448.12
Total Student Aid Funds Balances	42,454.06	190,448.12
Total Restricted Liabilities and Funds Balances	53,462.83	204,713.92
Total Current Liabilities and Funds Balances	$1,801,039.94	$2,807,063.86

EXHIBIT A

BALANCE SHEET (Cont'd)
JUNE 30, 1973
WITH COMPARATIVE FIGURES AT JUNE 30, 1972

ASSETS

	Current Year	Prior Year Unaudited
Student Loan Funds:		
Cash	$ 162,179.99	$ 250,830.02
Deposit, United Aid Funds	19,000.00	19,000.00
Notes Receivable	1,721,312.74	1,547,618.41
Investments	19,911.09	18,957.55
Total Student Loan Funds Assets	$1,922,403.82	$1,836,405.98
Endowment Funds:		
Investments	$ 686,767.77	$ 693,267.58
Total Endowment Funds Assets	$ 686,767.77	$ 693,267.58
Plant Funds:		
Unexpended:		
Cash	$ 30,252.74	$ 39,641.78
On Deposit-State Treasurer	126,158.33	148,032.34
State Appropriations	1,241,124.07	1,567,976.81
Investments	218,138.54	146,921.89
Total Unexpended Plant Funds	1,615,673.68	1,902,572.82

LIABILITIES AND FUND BALANCES

	Current Year	Prior Year Unaudited
Student Loan Funds:		
Student Loan Funds, per Schedule A-3	$1,922,403.82	$1,836.405.98
Total Student Loan Funds Balances	$1,922,403.82	$1,836,405.98
Endowment Funds:		
Due to U of M Foundation Endowment Fund	$	$ 302.20
Balances, per Schedule A-4	686,767.77	692,965.38
Total Endowment Funds Balances	$ 686,767.77	$ 693,267.58
Plant Funds:		
Unexpended:		
Due to Debt Retirement Funds	$	$ 5,077.40
Due to Auxiliary Enterprises		242.78
Bonds Payable, per Schedule A-5		269,275.83
Unexpended Plant Fund Balances, per Schedule A-6	1,615,673.68	1,627,976.81
Total Unexpended Plant Liabilities and Funds Balances	1,615,673.68	1,902,572.82

Plant Funds:

Debt Retirement:

Cash	338,790.28	423,836.40
On Deposit-State Treasurer	871,030.69	670,719.48
Investments-State Treasurer	219,782.65	397,514.07
Investments-Trustees	2,103,912.67	1,672,979.00
Due from Debt Retirement Funds		5,077.40
Due from Auxiliary Enterprises	5,000.00	2,343.96
Total Debt Retirement Funds	3,538,516.29	3,172,469.31

Investment in Plant:

Land	2,231,707.40	2,162,867.32
Buildings	38,299,141.05	34,555,296.66
Equipment	11,092,753.26	10,472,838.58
Construction in Progress	3,724,764.21	6,013,041.23
Total Investment in Plant Assets	55,348,365.92	53,204,043.79
Total Plant Funds Assets	$60,502,555.89	$58,279,085.92

Agency Funds:

Cash	$ 189,339.02	$ 200,627.29
Due from State Treasurer-Revolving Fund	$ 16,699.36	$ 10,351.88
Investments	25,198.39	70,995.91
Total Agency Funds Assets	$ 231,236.77	$ 281,975.08

Plant Funds:

Debt Retirement:

Debt Fund Retirement, per Schedule A-7	3,538,516.29	3,172,469.31
Total Debt Retirement Funds Balances	3,538,516.29	3,172,469.31

Investment in Plant:

Bonds Payable	20,197,000.00	20,364,724.17
Notes Payable	29,073.56	38,814.84
Contracts Payable	98,551.56	135,711.14
Net Investment in Plant, per Schedule A-8	35,023,740.80	32,664,793.64
Total Plant Liabilities and Net Investment in Plant	55,348,365.92	53,204,043.79
Total Plant Liabilities and Funds	$60,502,555.89	$58,279,085.92

Agency Funds:

Agency Funds, per Schedule A-9	$ 231,236.77	$ 281,975.08
Total Agency Funds Balances	$ 231,236.77	$ 281,975.08

EXHIBIT A-1
SCHEDULE A-1

STATEMENT OF CHANGES IN FUND BALANCES

UNRESTRICTED CURRENT FUNDS

	Educational & General	Auxiliary Enterprises	Total
Balance July 1, 1972	$ 558,016.53	$1,137,638.74	$ 1,695,655.27
Adjustments—			
To Convert Revenue from Cash to Accrual Basis for:			
Health Service		(24,662.55)	(24,662.55)
University Center		(36,780.05)	(36,780.05)
Adjusted Balance July 1, 1972	558,016.53	1,076,196.14	1,634,212.67
Additions—			
Revenue per Exhibit B	12,908,682.35	5,672,536.27	18,581,218.62
Deductions—			
Expenditures, per Exhibit B	13,369,943.83	6,035,940.95	19,405,884.78
Funds to Revert June 30, 1973	29.42		29.42
Balance June 30, 1973, to Exhibit A	$ 96,725.63	$ 712,791.46	$ 809,517.09

SCHEDULE A-2

STATEMENT OF CHANGES IN FUND BALANCES

RESTRICTED CURRENT FUNDS

	Educational & General	Student Aid	Total
Balance July 1, 1972	$ 14,265.80	$ 190,448.12	$ 204,713.92
Additions—			
Revenue, Per Exhibit B	333,849.82	1,406,593.48	1,740,443.30
Deductions—			
Expenditures, Per Exhibit B	337,106.85	1,563,938.18	1,901,045.03
Balance June 30, 1973, to Exhibit A	$ 11,008.77	$ 33,103.42	$ 44,112.19

SCHEDULE A-3

STATEMENT OF CHANGES IN FUND BALANCES

STUDENT LOAN FUNDS

	Current Year			Unaudited
	National Defense Loan Fund	University Loan Funds	Total	Prior Year Total
Fund Balance at Beginning of Year	$1,698,138.76	$138,267.22	$1,836,405.98	$1,637,699.47
Additions—				
Interest on Notes Receivable	13,146.28	1,758.97	14,905.25	23,554.92
Interest on Investments		955.20	955.20	2,040.56
Gifts		1,780.24	1,780.24	2,527.10
Federal Contributions	111,271.00		111,271.00	232,839.00
Refund on Cancellation of Student Loans	3,038.49		3,038.49	
State Appropriations	9,325.00		9,325.00	8,700.00
U of M Foundation Contribution				16,367.00
Total Additions	136,780.77	4,494.41	141,275.18	286,028.58
Deductions—				
Military or Teaching Cancellations	27,331,59		27,331.59	53,001.56
Death, Disability & Bankruptcy Cancellations	4,484.50		4,484.50	10,167.03
Collection Costs	7,089.48	2,018.12	9,107.60	3,470.01
Administrative Cost Allowance	10,892.34		10,892.34	9,464.70
Loans Written Off		592.00	592.00	3,452.77
Transfer of Funds*		2,869.31	2,869.31	7,766.00
Total Deductions	49,797.91	5,479.43	55,277.34	87,322.07
Fund Balance at End of Year, to Exhibit A	$1,785,121.62	$137,282.20	$1,922,403.82	$1,836,405.98

*Transfer to U of M Foundation from Dean of Students Loan No. 2	$ 1,750.81
Transfer to Investment from Forestry Loan Fund	906.12
Transfer to General Loan Fund from Turner Hall Fund	212.38
	$ 2,869.31

SCHEDULE A-4

STATEMENT OF CHANGES IN FUND BALANCES

ENDOWMENT FUNDS

Balance July 1, 1972		$692,965.38
Adjustments to Balance Forward		
Interest Added to Principal—Phillips Memorial		302.20
Adjusted Balance July 1, 1973		693,267.58
Additions—		
Interest on Stella Duncan Memorial	$17,641.78	
Interest on Phillips Memorial	157.50	17,799.28
Deductions—		
Earnings in Phillips Memorial Transferred to Restricted Funds	302.20	
Grants Made from Stella Duncan Memorial Fund to U of M	23,996.89	24,299.09
Balance June 30, 1973		$686,767.77

SCHEDULE A-5

EXPENDABLE PLANT FUNDS FROM BOND PROCEEDS
FIELD HOUSE AND HEALTH SERVICE

	Field House	Health Service	Total
Expendable Funds, July 1, 1972	$242,061.64	$27,214.19	$269,275.83
Additions—			
Transfers for Interest Payments			
From Student Building Fees	169,965.11		169,965.11
From Health Service Operation		25,015.10	25,015.10
Total Available	412,026.75	52,229.29	464,256.04
Deductions—			
Invested in Construction and Capitalized in Construction in Progress	412,026.75		412,026.75
Capitalized in Investment in Plant		52,229.29	52,229.29
Expendable Plant Funds from Bond Proceeds, at June 30, 1973	$ 0	$ 0	$ 0

SCHEDULE A-6

STATEMENT OF CHANGES IN FUND BALANCES

UNEXPENDED PLANT FUNDS

Balance July 1, 1972			$1,627,976.81
Additions—			
Federal Funds		$ 447,839.42	
Student Building Fee		453,308.50	
Vehicle Registration Fee		75,007.94	
Insurance Proceeds		229,586.22	
Interest Earnings on Insurance Proceeds		419.77	
U of M Foundation		1,040.00	
Performance Deposit		12,000.00	
Gifts		500.00	
Auxiliary Enterprises		55,093.63	
Total Additions			1,274,795.48
Total Funds Available			2,902,772.29
Deductions—			
Expended for Plant Facilities			
Land	$ 146,657.28		
Buildings	1,047,274.19		
Equipment	88,009.98	1,281,941.45	
Transfers To—			
Debt Retirement Fund-Student Building Fees	4,180.65		
U of M Foundation	488.07		
Student Store Special Reserve Trust Fund	488.44	5,157.16	
Total Deductions			1,287,098.61
Balance June 30, 1973, to Exhibit A			$1,615,673.68

SCHEDULE A-7

STATEMENT OF CHANGES IN FUND BALANCES

PLANT FUNDS FOR DEBT RETIREMENT

Balance July 1, 1972			$3,172,469.31
Additions—			
Student Fees		$ 644,134.63	
Revenue from Investments		150,166.25	
Gain on Bond Redemptions		12,226.66	
Transfers From:			
Current Funds	$1,317,343.62		
Unexpended Plant Funds	4,180.65	1,321,524.27	
Total Additions			2,128,051.81
Total Funds Available			5,300,521.12
Deductions—			
Debt Retirement			
Notes Payable	9,740.88		
Bonds Payable	437,000.00	446,740.88	
Interest		828,299.00	
Bond Service and Audit Expense		1,777.20	
Reimburse University Operating Budget for Lodge Move		5,500.00	
Building Removal and Equipment		26,379.25	
Transfer to Unexpended Plant Funds		453,308.50	
Total Deductions			1,762,004.83
Balance June 30, 1973, to Exhibit A			$3,538,516.29

SCHEDULE A-8

STATEMENT OF CHANGES IN FUND BALANCES

NET INVESTMENT IN PLANT

Balance July 1, 1972		$32,664,793.64
Additions—		
Total Plant Additions		
From—		
Current Funds	$ 702,729.69	
Bond Proceeds, Schedule A-5	464,256.04	
Unexpended Plant Funds, Schedule A-6	1,281,941.45	
U of M Foundation	229,699.36	
Total Increase in Fixed Assets		2,678,626.54
Additions—		
Debt Retired—		
From—		
Debt Retirement Funds, Schedule A-7	446,740.88	
Current Funds	71,074.14	
		517,815.02
		35,861,235.20
Deductions—		
New Debt—		
Bonds Payable on Construction in Progress, Health Service and Field House	464,256.04	
Equipment Purchase Contracts	32,914.56	
Deductions—		497,170.60
Correction of Capitalizations[1]		340,323.80
Balance June 30, 1973		$35,023,740.80

[1]Prior year capitalizations as well as current year capitalizations were in error. This amount also includes the amount of realized depreciation of items traded in on new purchases.

STATEMENT OF CHANGES IN FUND BALANCES

AGENCY FUNDS

	Associated Student Organizations	Other Student Organizations	Other Agency Organizations	Total
Balance July 1, 1972	$ 28,382.74	$182,597.39	$ 70,994.95	$ 281,975.08
Additions—				
Student Activities Fee	316,296.91			316,296.91
Other Receipts	184,462.83	279,290.03	665,047.82	1,128,800.68
Total Additions	500,759.74	279,290.03	665,047.82	1,445,097.59
Deductions—				
Program Expenditures	316,187.27	353,955.18	682,693.45	1,352,835.90
Transferred to Intercollegiate Athletics	143,000.00			143,000.00
Total Deductions	459,187.27	353,955.18	682,693.45	1,495,835.90
Balance June 30, 1973, to Exhibit A	$ 69,955.21	$107,932.24	$ 53,349.32	$ 231,236.77

EXHIBIT B

CONDENSED STATEMENT OF CURRENT FUNDS REVENUE AND EXPENDITURES WITH COMPARATIVE FIGURES FOR 1971-72

REVENUE

	Current Year			Unaudited Prior
	Unrestricted	Restricted	Total	Year Total
Educational and General	$12,908,682.35	$ 333,849.82	$13,242,532.17	$13,069,900.87
Auxiliary Enterprises	5,672,536.27		5,672,536.27	5,579,096.72
Student Aid		1,406,593.48	1,406,593.48	1,594,900.88
Total Revenue, Per Schedule B-1	$18,581,218.62	$1,740,443.30	$20,321,661.92	$20,243,898.47

EXPENDITURES

Educational and General	$13,369,943.83	$ 337,106.85	$13,707,050.68	$12,718,341.48
Auxiliary Enterprises	6,035,940.95		6,035,940.95	5,219,023.88
Student Aid		1,563,938.18	1,563,938.18	1,453,308.39
Total Expenditures, Per Schedule B-2	$19,405,884.78	$1,901,045.03	$21,306,929.81	$19,390,673.75
Excess of Expenditures over Revenue	$ 824,666.16	$ 160,601.73	$ 985,267.89	$ (853,224.72)

SCHEDULE B-1

STATEMENT OF CURRENT FUNDS REVENUE
WITH COMPARATIVE FIGURES FOR 1971-72

	Current Year			Unaudited Prior
	Unrestricted	Restricted	Total	Year Total
EDUCATIONAL AND GENERAL				
Student Fees				
Registration	$ 381,704.04	$	$ 381,704.04	$ 389,973.04
Incidental	1,709,850.06		1,709,850.06	1,735,160.68
Non-Resident	1,281,992.10		1,281,992.10	1,219,378.31
Continuing Education		83,842.00	83,842.00	42,525.00
Admission Fee	70,776.11		70,776.11	80,680.65
Other Student Fees	50,186.04		50,186.04	40,665.02
Total Student Fees	3,494,508.35	83,842.00	3,578,350.35	3,508,382.70
Governmental Support				
State General Fund	7,072,021.00		7,072,021.00	7,112,421.00
State Millage Fund	2,025,000.00		2,025,000.00	1,975,000.00
Interest & Income-State Land Grant Fund	78,612.33		78,612.33	45,367.44
Federal Funds	5,226.14	215,510.94	220,737.08	206,089.94
Total Governmental Support	9,180,859.47	215,510.94	9,396,370.41	9,338,878.38
Indirect Cost Reimbursement	200,000.00		200,000.00	176,071.00
Endowment Revenue		5,282.25	5,282.25	5,091.58
Sales and Service, Educational Departments	33,314.53		33,314.53	9,290.29
Organized Activities, Educational Departments		29,214.63	29,214.63	32,186.92
Total Educational and General	12,908,682.35	333,849.82	13,242,532.17	13,069,900.87
AUXILIARY ENTERPRISES				
Chemistry Stores	71,361.89		71,361.89	64,829.94
Biological Station	3,773.65		3,773.65	4,501.18
Campus Recreation	47,816.01		47,816.01	
Married Student Housing	462,393.23		462,393.23	462,688.49
Food Service	2,026,474.73		2,026,474.73	2,063,998.99
Residence Halls	816,351.88		816,351.88	769,036.75
Student Health Service	360,291.52		360,291.52	362,284.25
Prescription Pharmacy	31,371.79		31,371.79	27,504.80
Printing & Clerical Services	522,134.21		522,134.21	471,801.66
Field House	62,549.35		62,549.35	41,525.30
Lubrecht Experimental Forest	11,113.19		11,113.19	19,522.10
Vehicle Pool				28,013.55
Golf Course	60,707.80		60,707.80	56,217.90
Intercollegiate Athletics	378,940.64		378,940.64	359,782.59
University Theater	3,515.77		3,515.77	5,633.42
University Center	730,830.21		730,830.21	757,845.78
Swimming Pool	42,045.01		42,045.01	38,112.02
Vehicle Registration Fee	38,582.79		38,582.79	45,748.00
Instructional Materials Film Library	2,282.60		2,282.60	
Total Auxiliary Enterprises	5,672,536.27		5,672,536.27	5,579,096.72
STUDENT AID				
Scholarships & Prizes		731,857.87	731,857.87	566,121.88
Federal Programs		674,735.61	674,735.61	1,028,779.00
Total Student Aid		1,406,593.48	1,406,593.48	1,594,900.88
Total Current Funds Revenue, to Exhibit B	$18,581,218.62	$1,740,443.30	$20,321,661.92	$20,243,898.47

SCHEDULE B-2

STATEMENT OF CURRENT FUNDS EXPENDITURES WITH COMPARATIVE FIGURES FOR 1971-72

	Current Year			Unaudited
	Unrestricted	Restricted	Total	Year Total
EDUCATIONAL AND GENERAL				
Instruction and Departmental Research				
College of Arts & Sciences	$ 5,510,355.24	$ 7,103.00	$ 5,517,458.24	$ 5,099,743.43
Professional Schools				
Business Administration	545,306.56	206,940.94	752,247.50	664,279.55
Fine Arts	857,361.79		857,361.79	754,655.99
Forestry	320,107.84		320,107.84	299,691.21
Journalism	202,519.76		202,519.76	185,566.02
Law	310,938.95		310,938.95	275,925.17
Pharmacy	189,111.96		189,111.96	184,156.14
Education	601,506.94		601,506.94	569,790.28
Graduate School	56,697.28		56,697.28	52,224.57
Total Professional Schools	3,083,551.08	206,940.94	3,290,492.02	2,986,288.93
Other Related Instructional Activities	324,253.65		324,253.65	321,499.29
Total Instruction and Departmental Research	8,918,159.97	214,043.94	9,132,203.91	8,407,531.65
Organized Activities, Relating to Educational Departments	198,447.06	34,582.38	233,029.44	58,061.55
Organized Research	349,162.36		349,162.36	371,439.60
Extension and Public Service	26,627.03	83,373.37	110,000.40	66,948.93
Libraries	840,314.67	5,107.16	845,421.83	835,654.74
Student Services	365,938.82		365,938.82	341,836.18
Operation and Maintenance of Physical Plant	1,798,726.78		1,798,726.78	1,830,932.78
General Administration	412,125.26		412,125.26	353,648.23
General Institutional Expense	460,441.88		460,441.88	452,287.82
Total Educational and General	13,369,943.63	337,106.85	13,707,050.68	12,718,341.48
AUXILIARY ENTERPRISES				
Chemistry Stores	65,529.05		65,529.05	56,236.68
Biological Station	3,851.25		3,851.25	1,504.97
Campus Recreation	51,217.04		51,217.04	
Married Student Housing	600,750.30		600,750.30	358,370.82
Food Service	2,107,452.84		2,107,452.84	1,923,559.61
Residence Halls	872,742.11		872,742.11	729,671.43
Health Service	371,289.57		371,289.57	380,773.39
Prescription Pharmacy	23,034.99		23,034.99	24,816.31
Printing and Clerical Service	611,033.96		611,033.96	474,264.27
Lubrecht Forestry Camp	13,203.04		13,203.04	14,593.34
Field House	60,950.49		60,950.49	42,029.77
Instructional Materials Film Library	2,722.87		2,722.87	
Vehicle Pool				32,766.79
Golf Course	57,159.65		57,159.65	61,892.05
Intercollegiate Athletics	356,084.16		356,084.16	366,210.61
University Theater	6,158.99		6,158.99	4,241.96
University Center	710,731.31		710,731.31	703,727.79
Swimming Pool	47,021.39		47,021.39	35,066.80
Vehicle Registration	75,007.94		75,007.94	4,297.29
Total Auxiliary Enterprises	6,035,940.95		6,035,940.95	5,219,023.88
STUDENT AID		1,563,938.18	1,563,938.18	1,453,308.39
Total Current Funds Expenditures, to Exhibit B	$19,405,884.78	$1,901,045.03	$21,306,929.81	$19,390,673.75

STATEMENT OF FEE EXEMPTIONS, SCHOLARSHIPS AND WAIVERS

1972-73

		Educational and General Revenue					Other Revenue				
	Max. No. for any Quarter	Registration Fee	Incidental Fee	Non-Resident Fee	Music Fee	Total	Building Fee	Health Service Fee	Student Activity Fee	Summer Activity Fee	TOTAL
Statutory Scholarships and Waivers:											
High School Honor	171	$ 7,395.00	$ 36,975.00	$	$	$ 44,370.00	$	$	$	$	$ 44,370.00
Indian Scholarships	156	7,837,50	38,791.50			46,629.00					46,629.00
Inmates of Custodial Institutions	4	120.00	600.00			720.00					720.00
War Orphans	4	165.00	825.00			990.00					990.00
Montana Honorable Discharge	41	1,545.00	6,326.00			7,871.00					7,871.00
Administrative Scholarships and Waivers:											
University Honor	330	14,745.00	73,725.00			88,470.00					88,470.00
Graduate Assistants	218	9,524.50	46,871.00	73,092.00		129,487.50			9,465.00		138,952.50
Research Assistants and Fellowships	14	587.50	3,116.50	1,300.00		5,004.00			450.00		5,454.00
Athletic Grants-in-Aid	113	4,905.00	24,525.00	19,500.00		48,930.00					48,930.00
Non-Resident	42			31,909.75		31,909.75					31,909.75
Grants-in-Aid	37	1,380.00	6,900.00			8,280.00					8,280.00
Graduate Students	428								25,162.50		25,162.50
Music Scholarships	6				300.00	300.00					300.00
Faculty and Staff	54		8,009.75			8,009.75		1,534.45	165.00		9,709.20
Faculty Wives	23							797.65	435.00		1,232.65
Off-Campus Waivers	62							2,354.05		860.00	3,214.05
Institute Waivers	77	1,155.00	5,690.25	7,490.00		14,335.25					14,335.25
Catholic Nuns	3							44.20	15.00		59.20
A.F.I.T. at Malmstrom	182		29,409.00	99,840.00		129,249.00	8,640.00	7,453.10	2,190.00	976.00	148,508.10
TOTALS	1,965	$49,359.50	$281,764.00	$233,131.75	$300.00	$564,555.25	$8,640.00	$12,183.45	$37,882.50	$1,836.00	$625,097.20

Maximum Number of Students Participating										
Summer 1972	204	354	221		575	122	213		238	1,148
Regular Year, 1972-73	1,081	1,317	336	6	1,659	182	321	1,055		3,217

This report also includes the Law students who are on a Semester basis.

ACCOUNTING BASES

The financial report reflects the results of financial transactions for the University of Montana for the year ending June 30, 1973.

The University of Montana maintains accounting records in basic accordance with standards recommended by the American Council on Education in its publication, **College and University Business Administration.** This report is prepared in accordance with recommendations in that publication.

Revenue and expenditures in the educational and general area of current funds are reported on a modified accrual basis. Auxiliary enterprises revenue and expenditures in the current fund group are on a full accrual basis.

University accounting is performed within the framework of the following five major fund groupings:

Current Funds

Current funds are funds which are available for current operations. Included in current funds are education and general, student aid and auxiliary enterprises funds. Current education and general funds are further classified as unrestricted or restricted depending upon whether restrictions have been placed upon their use. Student aid funds are normally all classified as restricted. Auxiliary enterprises funds are classified as unrestricted.

Student Loan Funds

Loan funds are those funds which are loanable to students to help finance the cost of their education. Although private and University sources provide loan funds, the Federal government provides by far the largest percentage.

Endowment Funds

Endowment funds are funds whose principal is unexpendable with only the income from the investment of the funds being available for expenditures.

Plant Funds

Plant funds consists of funds to be used for construction or renovation of plant, funds to be used for the retirement of debts service on liabilities incurred on physical plant, and funds already expended for physical plant. These funds are separated in three balanced fund groups as follows:

Unexpended plant funds for construction, acquisition or renovation of plant.

Retirement of indebtedness funds for debt liquidation.

Investment in plant which represents the University's equity in physical assets.

Agency Funds

Agency funds are funds which belong to other individuals and organizations for whom the University is acting as custodian or fiscal agent.

APPENDICES

State of Montana

Office of The Attorney General

STATE CAPITOL
HELENA, MONTANA 59601

FEB 03 1975

MONTANA LEGISLATIVE AUDITOR

APPENDIX I

BERT L. WOODAHL
TTORNEY GENERAL

VOLUME NO. 36 Opinion No. 2

APPROPRIATIONS - Bills, university system; APPROPRIATIONS - Limitations, university system; CONSTITUTIONAL LAW - Appropriations, university system; CONSTITUTIONAL LAW - Investments, university system; CONSTITUTIONAL LAW - Public funds, fiscal control; EDUCATIONAL INSTITUTIONS - Appropriations, terms and conditions; EDUCATIONAL INSTITUTIONS - Employees, benefits; EDUCATIONAL INSTITUTIONS - Investments, public funds; INVESTMENTS - University systems; LEGISLATURE - Appropriations; LEGISLATURE - Powers; STATE - Funds, appropriation of; STATE BOARD OF EDUCATION - Powers, investments; STATE TREASURER - Funds, custodian of; UNIVERSITY SYSTEM - Appropriations, limitations; UNIVERSITY SYSTEM - Employees, benefits; UNIVERSITY SYSTEM - Funds, deposit of; UNIVERSITY SYSTEM - Funds, investment of. Article III, section 1; Article VIII, sections 12 and 13; Article X, sections 9 and 10; Constitution of Montana (1972); sections 59-1001, 59-1007, 79-201, 79-301, 79-306, and 82A-204, R.C.M. 1947.

HELD: 1. The provisions of sections 79-308 and 82A-204, R.C.M. 1947, relating to the investment of state moneys are applicable to the board of regents of higher education and the separate units of the Montana university system.

2. The provisions of section 59-1001, et seq., R.C.M. 1947, relating to employee benefits and vacation leave are applicable to employees of the separate units of the Montana university system except those persons who would qualify as "school teachers" under the provisions of section 59-1007, R.C.M. 1947.

3. The provisions of section 79-306, R.C.M. 1947, designating the state treasurer as the treasurer of every state agency and institution and requiring the daily deposit of all moneys, credits, evidences of indebtedness, and securities, either in financial institutions designated by the state treasurer or with the state treasurer, are applicable to the board of regents and the separate units of the Montana university system and the public funds under their control and supervision.

4. The line-item appropriations and conditions attached thereto contained in House Bill 55, Montana Session Laws of 1973, are constitutionally permissible and binding on the board of regents of higher education and the separate units of the Montana university system.

January 31, 1975

Mr. Morris L. Brusett
Legislative Auditor
State Capitol
Helena, Montana 59601

Dear Mr. Brusett:

You have requested my opinion on the following questions:

"Are the board of regents and the separate units of the Montana university system required to comply with legislative enactments and administrative regulations in the following areas:

(1) Investment of state moneys under the provisions of sections 79-308 and 82A-204, R.C.M. 1947.

(2) Employee benefits and vacation leave under the provision of section 59-1001, R.C.M. 1947.

(3) Fiscal control and deposit of revenues in the state treasury under the provisions of section 79-306, R.C.M. 1947.

(4) Appropriations, either line-item or by program, which were authorized by the passage of House Bill No. 55, Montana Session Laws of 1973."

Question 1: Montana's Constitution, Article X, section 9 (1972), provides for a board of regents of higher education which is one of two boards that make up the state board of education. Subsection (2) of Article X, section 9, provides in part:

"(2)(a) The government and control of the Montana university system is vested in a board of regents of higher education which shall have full power, responsibility, and authority to supervise, coordinate, manage and control the Montana university system and shall supervise and coordinate other public educational institutions assigned by law.

* * *

(d) The funds and appropriations under the control of the board of regents are subject to the same audit provisions as are all other state funds."

The powers and duties of the board of regents of higher education, hereinafter referred to as "Regents", are more specifically defined in chapters 81 and 84 through 88 of Title 75, R.C.M. 1947.

The investment of state university funds is governed by two separate articles of Montana's constitution. Article X, section 10, provides, in part:

"... The various funds (of the Montana university system) shall be respectively invested under such regulations <u>as may be provided by law</u>,..." (Emphasis supplied)

Article VIII, section 13, provides, in part:

> "(1) The legislature shall provide for a unified investment program for public funds and provide rules therefor,..." (Emphasis supplied)
>
> "(2) ...(T)he permanent funds of the Montana university system and all other state institutions of learning shall be safely and conservatively invested in:
>
> (a) Public securities of the state, its subdivisions, local government units, and districts within the state, or
>
> (b) Bonds of the United States or other securities fully guaranteed as to principal and interest by the United States, or
>
> (c) Such other safe investments bearing a fixed rate of interest as may be provided by law." (Emphasis supplied)

The legislature has provided for a unified investment program for public funds. Section 82A-204, R.C.M. 1947, creates a board of investments and specifically provides, in part:

> "(4) The board of investments has the sole authority to invest state funds. No other agency may invest state funds. ..."

Section 79-301, et seq., R.C.M. 1947, defines the manner in which state funds shall be deposited with the state treasurer and invested by the board of investments.

Both Article X, section 10, and Article VIII, section 13, mandate that funds of the Montana university system shall be invested in a unified investment program which is to be established by the legislature. The legislature has established suc a program under the provisions of sections 82A-204 and 79-301, et seq., R.C.M. 1947.

It further appears that it was the intent of the 1972 Constitutional Convention to require that the funds of the university system be invested as provided for by the legislature and that the provision of Article VIII, section 13, would

govern such funds. At page 6585, Transcript of Proceedings, Montana Constitutional Convention (1972), Delegate Champoux stated to Chairman Graybill that the investment of university system funds had:

> "...already been taken care of in the Revenue and Finance article under investments,..."

Thus, it is abundantly clear that the provisions of sections 82A-204 and 79-301, et seq., R.C.M. 1947, apply to the investment of state funds under the control and supervision of the Regents and the separate units of the Montana university system.

Question 2: You have next asked whether the provisions of section 59-1001, R.C.M. 1947, relating to employee benefits and vacation leave, apply to the Regents and the separate units of the Montana university system.

The context in which this question arises is House Bill 55, Montana Session Laws (1973). House Bill 55 was an act of the legislature appropriating moneys to various state agencies, including the Regents and the various units of the Montana university system.

Section 14, House Bill 55, provided:

> "The provisions set forth in this section are limitations on the appropriations made in this act,... . It is the purpose of the legislature in enacting this bill only to appropriate funds and to restrict and limit by its provisions the amount and conditions under which the appropriations can be expended. Except as otherwise provided in this act, the expenditures of appropriations are hereby subject to the following general and specific provisions:
>
> (1) All expenditures of funds appropriated by this act for purpose of travel, transportation, and vacation and sick leave are subject to the provisions of the law expressed in title 59, R.C.M. 1947."

Title 59, chapter 10, R.C.M. 1947, governs leaves of absence for state employees except as provided for in section 59-1007, R.C.M. 1947. Section 59-1007, supra, specifically

excludes "school teachers" from the provisions of title 59, chapter 10, supra, and the Montana Supreme Court has indicated that the term "school teacher" as used in section 59-1007, supra:

> "...refers to those teaching at district schools as well as in the state's system of higher education." Teamsters, etc. v. Cascade County School Dist. No. 1, Mont. ____, 511 P.2d 339, 341 (1973) (Emphasis supplied)

Thus, I would conclude that the limitation placed on appropriations to the Regents and the separate units of the Montana university system contained in section 14, House Bill 55, are applicable to all state employees except those faculty members who are teaching in the state's system of higher education and who would qualify as "school teachers" under the provisions of section 59-1007, supra.

Question 3: Your next question asks whether the Regents and the separate units of the Montana university system must comply with legislative enactments regarding fiscal control, particularly, section 79-306, R.C.M. 1947, which requires the deposit of all revenue in the state treasury.

The Constitution of Montana, Article VIII, section 12 (1972), provides:

> "The legislature shall by law insure strict accountability of all revenue received and money spent by the state and counties, cities, towns, and all other local governmental entities. (Emphasis supplied)

The legislature has designated the state treasurer in section 79-201, R.C.M. 1947, as the:

> "...custodian of all moneys and securities of the state unless otherwise expressly provided by law, and it is the duty of the state treasurer:
>
> 1. To receive and account for all moneys belonging to the state, not expressly required by law to be received and kept by some other person." (Emphasis supplied)

Section 79-306, R.C.M. 1947, further provides:

> "(1) The state treasurer is designated the treasurer of every state agency and institution.
>
> (2) All state agencies and institutions shall deposit daily all moneys, credits, evidences of indebtedness, and securities either in banks, building and loan associations or savings and loan associations located in the city or town in which the agencies and institutions are situated if there is a qualified bank, building and loan association or savings and loan association in the city or town as designated by the state treasurer with the approval of the board of investments, or with the state treasurer. ..." (Emphasis supplied)

It is apparent that the legislature is the constitutionally appointed branch of state government responsible to account for state funds and that it has designated the state treasurer as the custodian of those funds. A systematic depository procedure has been established under the provisions of section 79-306, supra, which requires "all state agencies and institutions" to deposit their daily receipts in a banking facility "designated by the state treasurer--or with the state treasurer". In either case, the state treasurer will have a record or will be able to procure one from an independent source of the daily cash flow experienced by any particular state agency or institution.

It should be noted that Article VIII, section 12, refers to "all revenue"; that section 79-201, supra, refers to "all moneys"; and that section 79-306, supra, refers to "all state agencies and institutions" and "all moneys". The only funds or agencies exempt from these provisions are those which are expressly declared to be by the constitution or legislative enactment. No such express exemption exists for state funds in the hands of the Regents or the separate units of the Montana university system. Therefore, I conclude that the provisions of section 79-306, R.C.M. 1947, designating the state treasurer as the treasurer of every state agency and institution and requiring the daily deposit of all moneys, credits,

evidences of indebtedness, and securities, either in financial institutions designated by the state treasurer or with the state treasurer, are applicable to the Regents and the separate units of the Montana university system and the public funds under their control and supervision.

Question 4: Finally, you have asked whether the Regents and the separate units of the Montana university system must comply with the program appropriations and conditions set forth in House Bill 55, Montana Session Laws of 1973.

House Bill 55 is an act appropriating moneys to various state agencies within the Department of Education for the biennium ending June 30, 1975. Sections 1 through 15 of House Bill 55 contain, inter alia, terms and conditions attached to the specific appropriations.

For instance, section 7 provides:

> "Transfer of appropriated funds between programs of an agency may be made only by an approved budget amendment "

Section 13 provides, in part:

UNIVERSITY OF MONTANA

Programs:	Fiscal Year ending 6/30/74	Fiscal Year ending 6/30/75
Instruction	8,782,034	9,105,579
Organized Research	173,527	182,695
Public Service	97,455	102,618
Academic Support	1,662,797	1,736,275
Student Services	475,094	492,381
Institutional Support		
from general fund	3,131,835	3,287,675
from earmarked revenue funds:	7,981,109	8,411,235
student fees account	3,560,000	3,560,000
university mill. account	2,225,518	2,365,373
from other treasury funds	556,115	570,615

As you have indicated to me, the real thrust of your inquiry is whether the legislature may appropriate moneys to the university system by program and restrict the transfer of those moneys between separate programs, as well as separate units of the university system. This question arises due to the rather broad language contained in Article X, section 9, Constitution of Montana (1972), which provides, in part:

> "(2)(a) The government and control of the Montana university system is vested in a board of regents of higher education which shall have full power, responsibility, and authority to supervise, coordinate, manage and control the Montana university system... ." (Emphasis supplied)

Does the "full power, responsibility and authority" granted the board of regents preempt the legislature's authority to line-item appropriations by programs and attach conditions thereto? As far as House Bill 55 is concerned, absolutely not.

Montana's Constitution, Article III, section 1 (1972), divides the "power of the government" into three distinct branches - legislative, executive, and judicial. The Montana Supreme Court has consistently held that the power of the legislature is plenary, except as limited by the United States Constitution, the treaties made, and statutes enacted pursuant thereof, and by the Constitution of Montana. Goodell v. Judith Basin County, et al., 79 Mont. 222, 224 P. 1110 (1924), State ex rel. Evans v. Stewart, et al., 53 Mont. 13, 161 P. 309 (1916).

Furthermore, the power of the legislature will not be deemed to be circumscribed by mere implication. Goodell, supra, at 228.

> "He who seeks to limit the power of the lawmakers must be able to point out the particular provision of the Constitution which contains the limitation expressed in no uncertain terms." Evans, supra, at 25.

And so it is with the problem at hand. If the legislature's power and authority to appropriate state moneys by program and line-item and to attach conditions on the expenditure of those funds has been preempted, then such a limitation must appear in no uncertain terms in Montana's Constitution.

No such specific limitation appears in the Education and Public Lands article of the Constitution.

Other jurisdictions have entertained similar and related questions. The state of Michigan is regarded by some authorities in the field of higher education to have a board of regents with the most extensive powers and authority of any such board in the United States. L. Glenny and T. Dalglish, Public Universities, State Agencies, and the Law: Constitutional Autonomy in Decline (1973) Yet, even Michigan has affirmed the authority of the legislature over appropriations.

> "The legislature may put certain conditions on money it appropriates for the University which are binding if the Regents accept the money." Sprik v. Regents of University of Michigan, 204 N.W.2d 62, 67 (Mich. 1972)

Absent an intrusion into those areas which distinctly and uniquely belong under the jurisdiction of the Regents, line-item appropriations and conditions attached thereto such as those contained in House Bill 55 are constitutionally permissible. By this holding, not only is the separation of powers principle preserved, but also the duty of the legislature to strictly account for all moneys spent by the state is secured.

THEREFORE, IT IS MY OPINION that:

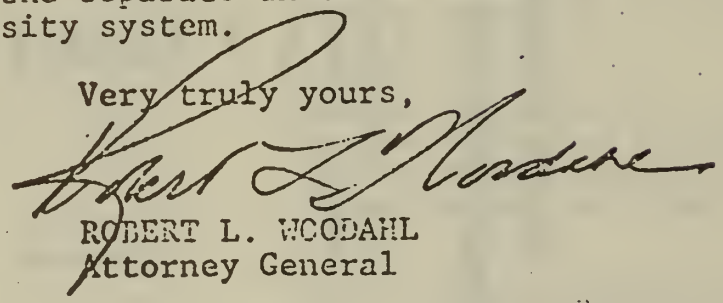
1. The provisions of sections 79-308 and 82A-204, R.C.M. 1947, relating to the investment of state moneys are applicable to the board of regents of higher education and the separate units of the Montana university system.

2. The provisions of section 59-1001, et seq., R.C.M. 1947, relating to employee benefits and vacation leave are applicable to employees of the separate units of the Montana university system except those persons who would qualify as "school teachers" under the provisions of section 59-1007, R.C.M. 1947.

3. The provisions of section 79-306, R.C.M. 1947, designating the state teassurer as the treasurer of every state agency and institution and requiring the daily deposit of all moneys, credits, evidences of indebtedness, and securities, either in financial institutions designated by the state treasurer or with the state treasurer, are applicable to the board of regents and the separate units of the Montana university system and the public funds under their control and supervision.

4. The line-item appropriations and conditions attached thereto contained in House Bill 55, Montana Session Laws of 1973, are constitutionally permissible and binding on the board of regents of higher education and the separate units of the Montana university system.

Very truly yours,



ROBERT L. WOODAHL
Attorney General

RLW:ce

1960 U OF M BUILDING FEE FUND

ELEVEN-YEAR SUMMARY - FISCAL YEARS 1963-64 THROUGH 1973-74

FY	Student Fee Revenue	Transfer of Funds In Exhibit H-1	Rental Income	Other Income	Disbursements General	Property Acquisitions Exhibit H-2	Equipment Purchases	Transfer To Trustee And Debt Service	Renovation Improvements Exhibit H-3	Ending Cash Balance
1963-64	$291,114	$373,679	$	$	$ 4,370	$	$	$516,027	$	$165,186
1964-65	326,986				989			163,400		327,783
1965-66	340,499				1,180	64,000		477,841		125,261
1966-67	353,191				1,161	18,000		164,098	4,169	291,024
1967-68	383,469				992	24,925		131,458	266,550	250,568
1968-69	433,815				2,905	141,770		149,012	50,407	340,289
1969-70	472,451	177,033	3,580		3[illegible],079	60,436		136,881	374,643	413,514 1/
1970-71	507,263	129,960	1,980	300	22,023	109,830		394,341	292,817	234,006
1971-72	521,449	7,420	1,160	2,704	1,918	12,002	18,000	265,691	50,362	418,766
1972-73	512,279	4,181			1,751	7,380	19,990	547,983 2/	25,198	332,924
1973-74	495,102	21,118			47,628 3/	122,995	56,636	335,861	176,191	109,833

1/ Includes unreconciled cash increase of $25,000.

2/ Includes $240,000 construction advance.

3/ Includes legal fees for Work Study defense of $45,832

1960 U of M BUILDING FEE FUND

ELEVEN-YEAR SUMMARY - FISCAL YEARS 1963-64 THROUGH 1973-74

DETAIL SUMMARY OF FUNDS TRANSFERRED IN

Fiscal Year	Amount	Source
1963-64	$ 373,679	Transfer from 1960 Bond Accounts
1964-69	None	
1969-70	$ 176,770	Transfer from 1960 Bond Account (Refund on Redemption of Bonds)
	263	Return: Renovation, Natural Science
	$ 177,033	
1970-71	$ 106,335	Bond Proceeds for Field House Addition Advance
	21,858	Bond Proceeds for Health Service Addition Advance
	1,010	Return: Renovation, Art Annex
	757	Return: Lodge Exit
	$ 129,960	
1971-72	$ 3,500	Return: Steam Station
	3,316	Return: Renovation, 720 Beckwith
	600	Return: Masquer Theater
	4	Return: Renovation, U Hall
	$ 7,420	
1972-73	$ 2,770	Return: Physical Therapy Facility
	1,411	Return: Journalism Exhaust System
	$ 4,181	
1973-74	$ 18,000	Return: Equipment purchases, FY 1971-72
	3,000	Return: Fire Escape, 730 Eddy
	118	Return: Renovation, Liberal Arts
	$ 21,118	

1960 U OF M BUILDING FEE FUND

ELEVEN-YEAR SUMMARY - FISCAL YEARS 1963-64 THROUGH 1973-74

DETAIL SUMMARY OF PROPERTY ACQUISITIONS

Fiscal Year	Property	Amount	Utilization During FY-1973-74
1963-65	No purchases	-0-	
1965-66	600 E. Beckwith	$ 33,000	Psychology Clinic/Academic Office Space
	658 E. Beckwith	16,000	Parking Lot
	1010 Arthur	15,000	Academic Office Space
		$ 64,000	
1966-67	603 Connell	$ 18,000	Parking Lot
1967-68	710 Eddy	$ 24,925	Academic Office Space
1968-69	1414 Maurice	45,339	Academic Office Space
	630 Eddy	32,157	Health Service Building
	730 Eddy	26,104	Academic Office Space
	609 Connell	18,149	Academic Space/Parking Lot
	901 Beckwith	11,931	Parking Lot
	714-16 Beckwith	8,090	Parking Lot
		$141,770	
1969-70	720 Beckwith	19,741	Academic Office Space
	619 Beckwith	8,873	Rental
	622 Eddy	8,627	Parking Lot
	655 Beckwith	8,162	Rental
	762 Eddy	3,540	Parking Lot
	Note Payments on Property Acquired in FY 1968-69	11,493	
		$ 60,436	
1970-71	Note Payments on Property Acquired in FY 1969-70	$ 23,830	
	724 Eddy	41,000	Office Space
	702 Beckwith	33,500	Parking Lot
	1514 Arthur	11,500	Parking Lot
		$109,830	
1971-72	Note Payments on Property Acquired in FY 1969-70 & FY 1970-71	$ 12,002	
1972-73	Note Payments on Property Acquired in FY 1969-70	$ 7,380	

Fiscal Year	Property	Amount	Utilization During FY-1973-74
1973-74	1375 Gerald	$115,000	President's Home
	Note Payments on Property Acquired in FY-1969-70	7,995	
		$122,995	

1960 U OF M BUILDING FEE FUND

ELEVEN-YEAR SUMMARY - FISCAL YEARS 1963-64 THROUGH 1973-74

DETAIL SUMMARY OF RENOVATION, MAINTENANCE AND IMPROVEMENTS

Fiscal Year	Amount	Work Performed
1963-66	None	
1966-67	$ 4,169	Renovation: Planetarium Building
1967-68	$227,000	Track Facilities/South Campus
	39,550	Renovation: Ceramics Lab
	$266,550	
1968-69	$ 25,000	Oval Development and Improvement
	16,900	Renovation: Journalism
	8,507	Field House, Overhead Doors
	$ 50,407	
1969-70	$150,000	Craig Hall Rent
	100,000	Lodge Space Rental
	52,357	Dornblaser Field
	25,000	Oval Development/Improvement
	20,618	Renovation: Ceramics Lab
	7,698	Tennis Courts
	4,000	Renovation: Lodge
	3,750	Forrestry Head House
	3,500	Steam Station
	3,000	Renovation: Natural Science
	1,400	Renovation: President's Office
	1,046	Campbell Park Fire Loss
	950	Health Service
	672	Renovation: Journalism
	439	House Moving Costs
	213	Field House, Overhead Doors
	$374,643	
1970-71	$ 88,693	Rent and moving expense-Turner Hall
	75,735	Construction advance, Field House
	28,416	Physical Therapy Facility
	20,908	Construction advance, Health Service
	14,971	Renovation: 724 Eddy
	14,282	Blue Mountain Observatory
	12,000	Filter Replacement, Swimming Pool
	6,894	Oval Development and Improvement
	6,600	Site Improvement
	5,600	Journalism Exhaust System
	5,545	Campbell Park Fire Loss
	3,993	Renovation: President's Office
	3,600	Renovation: Art Annex
	2,320	Renovation: Natural Science
	1,985	Building Removal
	515	Renovation: U Hall
	329	Tennis Court
	266	Repairs
	165	Forrestry Head House
	$292,817	

Fiscal Year	Amount	Work Performed
1971-72	$ 17,400	Moving Costs, Science Complex
	9,945	Renovation: 730 Eddy
	9,624	Renovation: 720 Beckwith
	8,000	Renovation: Centrex Facility
	2,555	Maintenance: 730 Eddy
	1,500	Refinish Bleachers, Dornblaser
	700	Painting, Field House Equipment
	600	Masquer Theater Exit
	29	Site Improvement
	9	Miscellaneous
	$ 50,362	
1972-73	$ 6,389	House Removal
	5,500	Lodge Move
	4,098	Renovation: Alumni Center
	3,000	Lodge Storage Room
	3,000	Fire Escape: 730 Eddy
	2,512	Renovation: 730 Eddy
	694	Renovation: 724 Eddy
	5	Renovation: Centrex Facility
	$ 25,198	
1973-74	$ 75,110	Playfield and Tennis Court
	58,564	Move Library
	18,000	Move KUFM Antenna
	9,999	Renovation: U Hall
	6,500	Renovation: 626 Eddy
	3,700	Chemistry Exhaust System
	1,218	Stage Removal
	1,205	Renovation: Field House
	1,100	Renovation: Liberal Arts
	664	Renovation: College Inn
	131	Field House Sign
	$176,191	

AGENCY REPLIES

University of Montana
Missoula, Montana 59801
(406) 243-0211

RECEIVED
MAY 27 1975
MONTANA LEGISLATIVE AUDITOR

May 22, 1975

Morris Brusett, Legislative Auditor
Legislative Audit Office
Room 135, State Capitol
Helena, MT 59601

Dear Morris,

We have completed our review of your final report of audit of the University of Montana for the fiscal year ending June 30, 1973. I thank you and your staff for the many positive recommendations and for the spirit of cooperation and consideration evident in the transition from the draft report to the final report.

In November, 1974, I announced plans to change the existing organizational structure of the University. Features of these plans which, in my opinion, are compatible to and respond to your audit report, are the establishment of the positions of Vice President for Fiscal Affairs, Director of Management Information Systems, and Controller. As you know, we have already selected the Controller and will soon announce the successful candidates for the other positions. Many of the findings in your report result primarily from inadequate fiscal supervision and we believe these staff additions should provide significant improvement in that area. I will recommend to these new staff members, that as part of the initial orientation to their positions, they should visit with you and key members of your staff. In addition, I will request the Vice President for Fiscal Affairs to review your report, establish target dates for corrective action and notify your office of these dates.

We have made arrangements with the Foundation Executive Committee for preliminary discussions of the relationship of the Foundation to the University. These discussions will be expanded later this summer in a meeting with the Board of Trustees of the University of Montana Foundation.

During the exit briefing, we requested that you consider changes to your report format to permit the responses to follow immediately after the appropriate finding and recommendation. Your response was to the effect that such a change was being considered. I hope this report format can be implemented for the public release of your current report on the University of Montana.

Sincerely yours,

Dick Bowers

Richard C. Bowers
President

RCB/jf
enc.

MAY 27 197

MONTANA LEGISLATIVE AUDITOR

The following set forth the audit recommendations and the responses of the University of Montana in each case:

RECOMMENDATION (Page 12 of Audit Report)

"We recommend that representatives of the university system work with the Department of Administration to develop an accounting system to satisfy legislative and university requirements."

Response: The University concurs in the potential merit of development and implementation of more uniform accounting policies and procedures which would better meet legislative as well as University requirements. It is presumed that selection of appropriate representatives to work on such a task, as well as determination of requirements, type of accounting system, policies and procedures are prerogatives of the Regents of Higher Education and that initiation of any unilateral action to this end by the University would not be in the best interest of the uniformity sought to be achieved.

RECOMMENDATION (Page 14 of Audit Report)

"We recommend that the university deposit all moneys in the state treasury and utilize the investment services of the Board of Investments."

Response: The findings and recommendations in this section of the report raise issues regarding the interpretation of the Constitution of the State of Montana and of certain specific statutes. The potential for systemwide impact and establishment of precedent inherent in the resolution of these issues preclude any unilateral decision on these matters by the University. Such issues necessarily involve interpretation of the extent and nature of the authority of the Regents of Higher Education and

it is apparent that the University is neither the intended nor the appropriate forum to be responsible for circumscribing that authority either directly or indirectly by any assertions or actions in response to findings or recommendations of the Legislative Audit Report.

For these reasons the University neither agrees nor disagrees with the findings or recommendations in this section. It appears that it is the obligation of the University under these circumstances to make these matters known to the Regents to provide that body with an opportunity to determine an appropriate course of action with which decision the University will comply.

RECOMMENDATION (Page 15 of Audit Report)

"We recommend that the university revise the present bank card arrangements to comply with state law and acceptable business practice."

Response: The University can neither affirmatively nor negatively respond to this recommendation for those reasons stated in the response to the recommendation on page 14 of the report regarding deposit of all moneys in the state treasury. Regarding the business judgement, the University will be pleased to review the merit of that judgement.

RECOMMENDATIONS (Page 20 of Audit Report)

"We recommend that the university:

1. Promptly bill the AFIT program for costs incurred.

Response: The University concurs with this recommendation and would point out that at the end of fiscal 1974, we were current.

2. Recognize unbilled accounts receivable and ensure that unbilled reimbursable costs are reported as revenue in the university financial statements."

Response: The University concurs with this recommendation.

RECOMMENDATION (Page 21 of Audit Report)

"We recommend that the university determine the proper use of administrative charges for deferred fees and record those fees as revenue."

Response: The University concurs with this recommendation.

RECOMMENDATION (Page 22 of Audit Report)

"We recommend that the university record library service charges and lost book collections as revenue and discontinue transferring these funds to the foundation."

Response: The University concurs with this recommendation.

RECOMMENDATIONS (Page 29 of Audit Report)

"We recommend that the university:

1. Record the receipt of all grants and the subsequent disbursement and expenditures on the university's records.

Response: The University concurs with this recommendation with the understanding that the recommendation refers to gifts and grants in which the University is the named or intended recipient expressed by the grantor or donor.

2. Administratively control all grant moneys and all grant projects which are performed on university facilities.

3. Establish written contracts for all work to be done by the foundation on behalf of the university, or to be done by the university on behalf of the foundation."

Response: The University concurs that it should either administratively control grant projects and moneys of all grants performed by University personnel in University facilities or that it should establish appropriate written contracts for all work to be done by the Foundation on behalf of the University or to be done by the University on behalf of the Foundation.

RECOMMENDATIONS (Page 32 of Audit Report)

"We recommend that the university:

1. Retain custody and control of all indirect cost reimbursements.

Response: The University concurs that indirect cost reimbursements intended to compensate the University for overhead expenses incurred by the University in administering grants should be retained within the custody and control of the University. However, because of existing grants and contracts which may not be unilaterally modified and because of the redefinition of the relationship of the University of Montana Foundation to the University of Montana regarding research projects which such a change would require, as well as other matters covered in the report, it is anticipated that some reasonable time will be required to appropriately implement the changes recommended.

2. Record in the university's records the receipt of all indirect cost reimbursements and subsequent disbursements.

Response: The University concurs that it should record in the University's records the receipt of all indirect cost reimbursements by the University and subsequent disbursements thereof.

3. Request a Board of Regents policy statement concerning entertainment expenses."

Response: The University concurs that a policy statement should be requested of the Board of Regents regarding entertainment expenses.

RECOMMENDATIONS (Page 35 of Audit Report)

"We recommend that the university:

1. Retain custody and control of interest earned on university pooled cash, record interest earnings as revenue, and allocate interest earnings to the source that provided the principal for investment.

Response: The University concurs that the University should retain custody of interest earned on pooled cash and record such earnings as revenue. In a memo dated January 3, 1975, the President has instructed the Business Manager, retroactive to July 1, 1974, to place all interest earned on University cash in a University account and all interest earned on Foundation funds in a Foundation account. Reallocation will be determined administratively consistent with existing funding structures.

2. Retain custody and control of student aid bookkeeping charges and record these charges as university revenue."

Response: The University concurs with this recommendation.

RECOMMENDATION (Page 36 of Audit Report)

"We recommend that the university develop procedures to ensure prompt billings for federally-sponsored projects."

Response: The University concurs with this recommendation.

RECOMMENDATIONS (Page 38 of Audit Report)

"We recommend that the university:

1. Terminate the practice of paying foundation employee payrolls with state warrants, and

Response: The University concurs; it being understood that implementation of the recommendation may involve a contractual redefinition of the employment relation of certain employees to the University with the probable result that a portion or all of certain positions may subsequently be identified as University as opposed to Foundation employment.

2. Terminate the foundation employees from the Public Employees' Retirement System and make public employees' retirement and teachers' retirement deductions only on salaries attributable to university work."

Response: The University concurs; it being understood that implementation of the recommendation will require a reasonable time to protect the vested as well as prospective interests of the employees involved.

RECOMMENDATIONS (Page 48 of Audit Report)

"We recommend that the university comply with the provisions of Section 75-8503, R.C.M. 1947, by:

1. Spending student building fees for the construction of revenue producing facilities only, and

2. Seeking legislative approval for all other expenditures of student building fees."

Response: The University can neither affirmatively nor negatively respond for those reasons stated in the response to the recommendation on page 14 of the report.

RECOMMENDATION (Page 53 of Audit Report)

"We recommend that the university act immediately to correct problems in its payroll system or work with the Department of Administration and State Auditor in placing the payroll for all university employees on the central payroll system."

Response: The University concurs. The implementation of the reorganization, particularly as it relates to the Vice President for Fiscal Affairs, the Controller and the Director of Management Information Systems, together with systems reviews already completed, such as the Master Employee Record, should provide appropriate direction, expertise and supervision to permit significant improvement in the payroll area.

RECOMMENDATIONS (Page 55 of Audit Report)

"We recommend that the university establish procedures wherein:

1. The personnel office staff meet with newly hired and terminating employees.

Response: The University concurs. It should be noted that at present (a) all newly hired employees who are subject to state benefits are processed through the Personnel Office; (b) that a resignation form is required of all employees on appointment who are terminating their employment; (c) that an exit interview process has been initiated

though not yet perfected or extended to all employees; (d) that investigation of positions paid by time card for which Personnel has no appointment form is presently being pursued; and (e) that planning and production of a master personnel file by data processing is underway.

2. Employment and pay change authorizations are initiated in the personnel department rather than in the department which hired the employee."

Response: The University concurs. It should be noted that at this time (a) any changes in classification, work hours, overtime, or time without pay are processed through Personnel; (b) that the new administrative reorganization will place both Payroll and Personnel within the jurisdiction of the Vice President for Fiscal Affairs; (c) that plans for physically locating Payroll and Personnel together have already been developed.

RECOMMENDATION (Page 56 of Audit Report)

"We recommend that the university centralize the maintenance of personnel files in one office under the control of the university personnel director."

Response: The University concurs. It should be noted that at this time (a) Personnel is developing files on all new hires consistent with administrative and affirmative action requirements; (b) Personnel has almost completed reconstruction of files for all previously hired and presently employed personnel; (c) Personnel is involved in development of a master file for employee data on all employees which will be controlled by Personnel.

RECOMMENDATION (Page 56 of Audit Report)

"We recommend that all items affecting payroll be processed through the university payroll office."

Response: The University concurs. A directive to all departments concerned was issued April 2, 1975.

RECOMMENDATION (Page 57 of Audit Report)

"We recommend that the Board of Regents formulate a uniform policy governing benefits such as termination pay for academic employees and specify such benefits in academic contracts."

Response: The University concurs with the recommendation.

RECOMMENDATIONS (Pages 61 and 62 of Audit Report)

"We recommend that the university:

1. Rely on construction in progress accounting records maintained by the Architecture and Engineering Bureau and discontinue the maintenance of duplicate records at the university.
2. Assign responsibility for physical and accounting control of fixed assets to specific positions.
3. Conduct complete physical inventories at least every two years.
4. Provide control accounts for land, buildings, and office equipment in the revised property accounting system.

Response: The University concurs with these recommendations.

RECOMMENDATION (Page 63 of Audit Report)

"We recommend that the university include in the agency funds all assets for which the university acts as custodian or fiscal agent."

Response: The University concurs as this is the recommendation of J.A.G. published in March, 1974. However, it must be pointed out that this does not follow the AICPA Guide published in May of 1973 or College and University Business Administration published in 1968.

College and University Business Administration published in 1968 states "The responsibilities of a college or university for the management, accounting, and reporting for agency funds are only that of a fiscal agent. The funds are not the property of the institution; therefore, reports on the transactions of such funds should be only reports of stewardship to the organization or agencies of which the agency funds are the property."

The University's fiscal officer determined the University was following the policy established by College and University Business Administration published in 1968 by issuing separate financial statements for the separately incorporated entities for which he was acting as fiscal agent. The AICPA Guide published in May of 1973 states "For adequate disclosure, all separately incorporated but related units for which the reporting institution is fiscally responsible, such as university presses, intercollegiate athletics and research foundations, should be (1) included in the financial statements, (2) adequately disclosed by notes, or (3) presented in separate financial statements accompanied by and cross-referenced in the basic financial statements of the institution." The AICPA Guide does permit the issuance of separate financial statements and reports for separate corporate entities.

RECOMMENDATIONS (Page 67 of Audit Report)

"We recommend that the university:

1. Develop procedures to ensure that all year-end liabilities are recorded.
2. Properly differentiate between encumbrances and accounts payable in the financial statements."

Response: The University concurs with these recommendations.

RECOMMENDATIONS (Page 71 of Audit Report)

"We recommend that the university:

1. Revise its accounting and reporting practices in accordance with guidelines prescribed by College and University Business Administration, 1974, the AICPA guide for Audits of Colleges and Universities, and the Report of the Joint Accounting Group.
2. Adopt sound procedures to develop financial statements, including the use of trial balances and documented adjusting and closing entries."

Response: Whereas the University agrees in principle, we refer to the response to the recommendation on page 12 of the report.

RECOMMENDATION (Page 73 of Audit Report)

"We recommend that the university improve control over cash disbursements by correcting internal control weaknesses."

Response: The University concurs with the recommendation.

RECOMMENDATIONS (Page 75 of Audit Report)

"We recommend that the university develop procedures to ensure that inventory records produce accurate information by:

1. Supervising the taking of physical inventory.
2. Providing guidelines for costing inventory in a uniform manner.
3. Ensuring proper cut-off procedures.
4. Testing the accuracy of inventory records and making necessary corrections.

Response: The University concurs with these recommendations.

RECOMMENDATION (Page 76 of Audit Report)

"We recommend that university administrative officials institute procedures to ensure an adequate review of travel claims for compliance with state laws and regulations."

Response: The University concurs with the recommendation.

THE MONTANA UNIVERSITY SYSTEM
TWELVE THIRTY-ONE ELEVENTH AVE.
HELENA, MONTANA
59601

RECEIVED
JUN 16 1975
MONTANA LEGISLATIVE AUDITOR

COMMISSIONER OF HIGHER EDUCATION

June 12, 1975

Mr. Morris L. Brusett
Legislative Auditor
Room 135, State Capitol
Helena, Montana 59601

Dear Morris:

Attached is the response from me to your Audit Recommendation for the University of Montana at Missoula.

Sincerely,

Larry

Lawrence K. Pettit
Commissioner of Higher Education

LKP:lw

Enclosure

THE MONTANA UNIVERSITY SYSTEM CONSISTS OF THE UNIVERSITY OF MONTANA AT MISSOULA, MONTANA STATE UNIVERSITY AT BOZEMAN, MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY AT BUTTE, WESTERN MONTANA COLLEGE AT DILLON, EASTERN MONTANA COLLEGE AT BILLINGS AND NORTHERN MONTANA COLLEGE AT HAVRE.

Response of Commissioner of Higher Education
to
University Audit Report

Uniform Accounting - p. 12

The 44th legislative assembly inserted into HB 271, Section 13, Subsection 5, the following language:

> (5) By July 1, 1976, all assets, liabilities, balances, receipts and expenditures of each university unit shall be accounted for in a uniform manner under a centralized accounting system which shall be totally consistent with the requirements and guidelines of the "Industry Audit Guide, Audits of Colleges and Universities" of the American Institute of Certified Public Accountants and "College and University Business Administration" prepared by the National Association of College and University Business Officers.
>
> It is the intent of the legislature that duplication of existing accounting systems not occur and that to assure a coordinated state accounting system, the department of administration and budget director assist the board of regents in developing and implementing the centralized system.

The Commissioner and the Board of Regents consider this a high priority item and will set aside funds to accomplish the intent of the legislation.

The Regents have previously established Board policy items mandating that the institutions develop uniform accounting systems consistent with the accounting principles promulgated by the American Institute of Certified Public Accountants audit guide. Montana is not unique in facing this situation. All institutions of higher education, both public and private, are currently revising their accounting systems to bring them into conformance with the recent changes in accounting principles.

Deposit of Funds, p. 14

The recommendation contains the term "all moneys" which can be construed to be all encompassing. The university has some moneys that are retained locally by trustee banks in accordance with bond indenture provisions. The bond indenture provisions will take precedent over the state statute. Also, the university acts as an agent for many organizations such as fraternities, sororities and other student organizations. It would be inappropriate and probably impossible to mandate the deposit of these moneys in the state treasury. The Commissioner concurs with the intent of the recommendation as it applies to state moneys available at the University with the implied understanding that any interest on earmarked money deposited in the state investment pool shall be credited to the respective earmarked account.

University Foundation Transactions - Gifts and Grants - pp. 23-29

This section of the audit report is generally critical of the University because of its practice of transferring grants received in the University's name into University foundation accounts. While the general rationale of this section of the report is not questioned, certain assertions with regard to legal interpretations require review.

On page 27, first paragraph following Research and Training, the following statement is made:

> These grants are accepted under the authority of Section 75-8801, R.C.M. 1947, which authorizes university units to engage in research programs and to accept gifts and grants to conduct research.

Grants to the units of the Montana University System are accepted by the institutions pursuant to a delegation of the Board of Regents constitutional authority to "coordinate, supervise, manage and control" the system. The Board and the institutions are no longer dependent upon statutory delegations of authority to undertake administrative and managerial tasks within the university system. In fact, in the case of 75-8801, R.C.M. 1947, it has been pointed out that this particular statute, because it was enacted in 1971 prior to the adoption of the constitution, was impliedly repealed when the new constitutional article on education took effect on July 1, 1973. See Schaefer, "The Legal Status of the Montana University System Under the New Montana Constitution", 35 Montana Law Review, 189, 207 (1974). Therefore, it is inaccurate to say that grants are accepted by the institutions pursuant to statutory authorization when in fact such authority is constitutional.

The same argument set forth above applies to Section 75-8501(10), R.C.M. 1947, which provides that the regents shall have general control over all receipts and disbursements of the university system. Professor Schaefer concludes that this section was also impliedly repealed by the adoption of the new constitution. Furthermore, an examination of the debate during the course of the constitutional convention proceedings demonstrates that the delegates intended to give the Board of Regents full fiscal control over the University System. An amendment to the majority report proposed that "powers and duties over financial affairs be regulated by law, the regents to have control over the administrative and academic functions." This proposed amendment was killed 52-40. TR Vol. IX, p. 6544. If anything is clear from the constitutional convention proceedings, it is that the framers intended the Board of Regents to have full authority and responsibility for handling administrative, fiscal, and academic matters within the system institutions.

Authority of the Board of Regents - Student Building Fees - pp. 38-48

This section of the audit report deals with the authority of the Regents to utilize student building fees. Although the audit purports to relate to fiscal year 1972-73, the criticized instances in which building fee monies have been used in a discretionary manner by the Regents occurred in fiscal years 1973-74 or 1974-75. The chronology is significant because of the implementation of the new constitution in July, 1973, which materially altered the legal structure for governance of Montana's public institutions of higher education.

The audit report presumes that legislative authorization is required for each expenditure of funds for any purpose from excess student building fee reserves. This assumption is fundamental to the criticism that student building fee monies have been improperly expended by the university. The assumption is erroneous because of the fact that the Board of Regents is no longer dependent upon the legislature for a delegation of authority to make fiscal decisions for the University System. The power of the Regents is derived directly from a constitutional source in the same fashion as the legislature derives its power. A constitutional source is, of course, in the hierarchy of law, a higher source than a legislative enactment. Moreover, it is a legal principle which does not require citation that the enactment of a constitutional provision which conflicts with prior legislative enactments results in the implied repeal of the conflicting legislation. This is the point which Professor Schaefer makes in the law review article on page 207, where he points out that Section 75-8503, R.C.M. 1947, was repealed by the implementation of the new constitution.

It follows from the above analysis that insofar as the audit report relies upon Section 75-8503, R.C.M. 1947, to support the conclusions reached therein, reliance is had upon statutory authority which is no longer of any legal efficacy. Even if it is accepted for purposes of discussion that the Regents authority is circumscribed by 75-8503, R.C.M. 1947, the audit report's interpretation of that statute is much more restrictive than is warranted by prior decisions of the Montana Supreme Court. In State ex rel Veeder v. State Board of Education, 97 Mont. 121, 133-134 (1934), the Montana Supreme Court said in responding to an argument that the Regent's predecessor board had no authority to levy a student union fee that: "The express power to manage and control the business and finances of the institutions (conferred by statute) carries with it the implied power to do all things necessary and proper to the exercise of the general powers....."

Contrary to the assertions of the audit report, the law does not limit the powers of the regents with respect to the use of student building fee monies in any respect. Certainly, by no stretch of legal interpretation can 75-8503 be read as prohibiting the Regents from utilizing student building fees for any purpose other than retiring bond indentures and building indenture reserves unless express authorization for other use is conferred by the Legislature.

Subsequent to the implementation of the new constitution, the Board of Regents promulgated a specific policy, superceding all others, which controls institutional use of excess student building fee monies. Board Policy Item 2-016-R1073 provides:

> The Board of Regents of Higher Education, consistent with all applicable laws and indentures, hereby authorizes the presidents of the six units to continue to expend building fees to plan, construct, renovate, equip, maintain, or improve any campus buildings or facilities; that they continue to proceed with minor expenditures for such purposes up to the amount of $10,000 as to each project, and that expenditures involving more than that amount for any single project shall be submitted to the Regents for specific approval as well as to the Director of the Department of Administration as provided by statute.

Submission of such items to the Director of the Department of Administration shall be done solely in response to the policy of this Board so long as that policy is in force, and shall not be construed as abrogating the constitutional authority of the Board of Regents.

The University of Montana was criticized in the audit report for expending excess student building fee monies for the payment of legal expenses, paying the so-called "work study settlement", purchasing real estate and making improvements, purchasing equipment, and making cash awards for a student art competition. Each of these expenditures is justifiable as a proper exercise of the Regents' constitutional authority to coordinate, supervise, manage and control the fiscal affairs of the university system. Specific statutory authorization is not required for such expenditures, and in addition, a close reading of Section 75-8503 will reveal that such expenditures are not expressly prohibited by that statutory enactment.

Termination Pay - p. 57

The Board of Regents' policy relating to vacation will include specific procedures for determining termination pay.

Bank Charge Cards - p. 15

The Commissioner concurs that the current method of utilizing bank charge cards is not acceptable. If it is deemed desireable to permit the use of charge cards by the students, a uniform Regent policy will be developed that will spell out the administrative guidelines and cost reimbursement procedures for all institutions within the System.